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BUSINESS CONSOLIDATION AND ITS IMPACT ON FINANCIAL PERFORMANCE: EVIDENCE FROM THE GHANAIAN BANKING INDUSTRY

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ABSTRACT: *The study provides empirical examination on the impact of business consolidation or mergers and acquisitions (M&A) on the financial performance of banks in Ghana. Both descriptive and correlational research designs were employed for the study. Two banks: Ecobank Ghana Ltd and Access Bank Ghana Ltd were chosen for the study. The annual reports of the banks from pre-merger period (2009 to 2011) and post-merger period (2012 to 2015) were used for the analysis. Two analysis techniques: ratio and regression analysis were used to examine the impact of mergers and acquisitions (M&A) on the profitability of these firms. Net profit margin (NPM) and return on capital employed (ROCE) were used as proxies for financial performance and Ordinary Least Square (OLS) regression model was used to estimate the level of impact of M&A on the performance of the banks. The study revealed that mergers and acquisitions (M&A) resulted to more than 80% growth in income and the net assets immediately after acquisition. The growth in profitability continued in subsequent years, however at a decreasing rates. With regards to net profit margin and return on capital employed (ROCE), the banks observed a marginal decline after three years of acquisition. The study further found empirical evidence to support the view that mergers and acquisitions (M&A) has a positive and significant impact on both NPM and ROCE. Accordingly, it is concluded that mergers and acquisitions (M&A) has a positive and significant impact on financial performance of banks.*

KEYWORDS: Consolidation, Mergers, Acquisition, Synergy, Agency Theory, Banks, Net Profit Margin, Return on Capital Employed (ROCE)

INTRODUCTION

Background of the Study

Profitable growth and maximization of the wealth of shareholders are the prime objective of every business enterprise. To maximize shareholders wealth and achieve profitable growth of business, Saboo et al. (2017) assert that it is a prerequisite for any corporation to limit competition to gain economies of large scale and increase its income with proportionally less investment. According to Zaremba and Plotnicki (2016), corporate restructuring has helped many companies to re-establish their competitive advantage and respond quickly and effectively to emerging opportunities and unforeseen challenges. Consequently, Aggarwal and Singh (2015) argue that there are two ways a business can grow: organic growth which relates to the turnover of a business and inorganic growth which also involves skipping few steps of the business ladder, corporate restructuring and business combinations. However, Cho et al. (2016) contend that a profitable growth of business can be achieved successfully if

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merger is adopted as a strategic tool. Moctar and Xiaofang (2014) also contend that mergers and acquisition includes the combination of at least two firms to form into a single corporation. The authors clarified that the traditional position on mergers and acquisition activity shows that it offers a general advantages to shareholders when the joined after-merger firm is more valuable than the straightforward aggregate of the two separate pre-merger firms.

The thinking behind business consolidation, which is also called merger and acquisition (M&A) as indicated by Li, Le and Zhang (2016) is that two organizations collectively are more profitable than two separate organizations. The major idea behind acquiring an organization is to make shareholder wealth well beyond that of the aggregate of the two organizations. This guideline is especially very enticing and tempting to organizations in tough circumstances. Gupta (2012) explained that bigger firms ordinarily act to obtain different organizations to form a more competitive and cost-efficient firm with the expectation of increasing its share of the overall industry or accomplish greater proficiency. On account of these potential advantages, Zaremba and Płotnicki (2016) contend that target firms mostly consent to be acquired when they understand that they cannot survive alone. As indicated by the authors, the advantages radiating from mergers and acquisitions have been assessed in terms of the ability to exploit scale and scope of economies, diversify risks, economize transaction costs, gain market control, and provide access to existing know-how.

Ghana, over the years has witnessed a wave of Mergers and Acquisitions (M&A) across some industries. A recent M&A in the insurance sector for example was between Provident Life and Old Mutual, Express Life and Prudential Plc. In the food and beverage sector was between Fan Milk International and Abraaj Food Industry. In the communication sector was between Airtel and Zain, Ghana Telecom and Vodafone. The recapitalization and consolidation exercise in the banking industry by the Central Bank of Ghana necessitated the need for banks to engage in corporate consolidation (Mergers and Acquisition). This has set some of commercial banks on the move to consider Merger and Acquisition as a survival strategy. For instance, in the year 2014, Merchant Bank Ghana was acquired by Fortis Equity Fund. Similarly, in the year, 2012, two major acquisition took place: Ecobank Transnational Inc. (ETI) reported the acquisition of The Trust Bank Ghana Limited (TTB) and Access Bank Ghana acquired Intercontinental Bank. Under the terms of the exchange, the banks executed an offer swap concurrence with the shareholders of both The Trust Bank (TTB) and Intercontinental Bank for 100% stake. The expectations were that the merged banks would be better situated to help the development and advancement desires and the expanding monetary necessities of the Ghanaian economy.

Similar to other industries, merger and acquisition processes in the banking industry has garnered considerable attention from managers and stakeholders. Similarly, the crucial role played by the banking sector in an economy has also occasioned additional interest from borrowers, depositors and policy-makers alike. Moctar and Xiaofang (2014) contend that the main concerns for policy-makers has been the possible impact of merger and acquisition on the transmission mechanisms of monetary policy. Aggarwal and Singh (2015) also submit that the impact of banking merger and acquisition on the transmission of monetary policy is a multidimensional issue. Most empirical studies suggest that an increase in banking concentration tends to drive the rates of loan up in many local markets thereby enhancing the financial performance of these banks.

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However, five years after the acquisition, there is little evidence to suggest whether the consolidation of these banks have resulted to a better performance. Although a number of studies have been carried out, there exist division amongst the conclusions reached. Some studies have concluded that there exists a positive impact between M&A and firm performance (Gatsi & Agbenu, 2006; Huang, 2010; Marfo and Agyei 2013; Aggarwal & Singh, 2015). Other studies also concluded that M&A have a negative to no impact on the performance of a firm (Saple, 2000; Pawaskar, 2001; Beena, 2006; Akhtar & Iqbal, 2014). Despite these contradictions in findings, most of these studies were carried out on businesses operating in different industries and in the developed world. Not that much of a study has been carried out in the underdeveloped world context and within the banking sector of Ghana for that matter. Thus there is an urgent need to provide empirical evidence on the impact of mergers and acquisition on the performance of banks in Ghana. In order to fill this gap in research, this study attempts to analyze the financial performance of Ecobank Ghana Limited and Access Bank Ghana Limited after acquiring the Trust Bank (TTB) and Intercontinental bank respectively in 2012 to ascertain the impact of the acquisition on their performance.

LITERATURE REVIEW

Theories of Business Consolidation or Mergers and Acquisition (M&A)

Several competing theories on mergers and acquisition have been advanced by financial researchers. Among them are empire-building, furthering anticompetitive activities, such as monopoly power, management-entrenchment and an overestimation of the ability of managers to improve the performance of a target they perceive to be underperforming (Mahesh & Prasad, 2012). Li et al. (2016) also observes that theories of mergers and acquisition are not mutually exclusive. The author explained that a firm or an organization could, for instance, seek to gain market power and at the same time be building an empire and believe that it can more efficiently manage the business of a firm or plant it has targeted as a potential acquisition.

Similarly, Saboo et al. (2017) argue that the two conspicuous theories of mergers and acquisition are the disciplinary and synergistic merger motives. The authors explained that the disciplinary mergers theory suggests that mergers and acquisition target the managers of companies who pursue objectives other than profit maximization. Thus, managers who do not get the most out of profits apparently would focus attention on goals other than profitability. Similarly, Garg et al. (2011) argue that since this dissimilarity in focus can come at the expense of operating efficiency, the performance of a company may suffer. This means that poor performance does not go unnoticed (Alam et al., 2014). Alam et al. (2014) maintain that opportunistic acquirers may notice the reduced performance accompanied by good assets and discipline the poorly performing plant by acquiring it. Thus, the authors maintain that the disciplinary theory indicates that acquiring companies amalgamate with poorly performing targets and increase their performance as new management realizes the full potential of a target's assets. However, according to Moctar (2012), Agrawal and Singh (2015), Faulkner et al. (2012) and Kemal (2011), three broad motivations for M&A have long been grouped in the literature: synergy, agency and hubris.

Synergy Theory: Faulkner et al. (2012) argue that the theory of synergistic merger holds that the managers of companies achieve efficiency gains by combining an efficient target with

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their business and then improving the performance of the target companies. Acquirers thus establish specific complementarities between their business and that of the target. This suggests that even though the target might already be performing well, it should perform even better when it is combined with its complementary counterpart, the acquiring firm. Rajeswari (2010) also observes that the synergy theory suggests that, target firms or plants perform very well both before and after mergers. Garg et al. (2011) also contend that empirical research evaluating the synergistic potency of mergers and acquisition has generated mixed results. Belinda (2005) reminds us that many mergers and acquisition studies have established that returns to acquiring firms are zero or negative. Other finance and economic reviews (Andre et al., 2004; Bradley and Sundaram, 2006 and Kiymaz & Baker, 2008) have found little evidence of efficiency gains from mergers and acquisition.

Agency Theory: Available literature indicates that the agency costs can happen in any company where the principal and the agent have dissimilar goals and different attitudes toward risk, and it is the main emphasis of agency theory to decrease these agency costs. Altunbas and Ibanez (2004) associates agency theory to mergers and acquisition based on management's incentive not to return free cash flow to the shareholders, but to employ them on expansion through acquisitions, and this conceptual link is called 'free cash flow theory of takeovers'. According to the authors, the free cash flow of a company is defined as the cash flow that is available after the company finances all the positive net present value projects that are discounted at the relevant cost of capital. Gupta (2012) however provided two reasons why managers may enlarge their companies beyond the optimal size. First, Faulkner et al. (2012) argue that the growth of a firm enhances its resources and accordingly empowers the managers.

Hubris Theory: According to Babanazarov (2012), the hubris theory/hypothesis explains that the psychological effect of overconfidence can cause the management of the bidding company to incorrectly assess the value of the target firms. In some cases, the author argue that managers keep the positive valuation error that bids are made even when a valuation is above the prevailing market price. Nonetheless, according to Mantravadi and Reddy (2008), evidence shows that the premium is paid in excess by the acquiring firm. This means that overconfident managers miscalculate the returns to their investment projects. Malmendier and Tate (2005) also argue that managers normally engage in takeovers only when it overestimates. For instance, according to Bruner (2004), the attempt by Volvo to merge with Renault in 1993 temporarily destroyed SEK 8.6 billion (US$ 1.1 billion) in Volvo shareholder wealth in support of the hubris hypothesis. Hietala, Kaplan, and Robinson (2003) also presented a framework that estimated how much the bidder overpays for their target and demonstrated one of these generic cases using the takeover contest for Paramount in 1994 in which Viacom overpaid by more than $2 billion. The authors concluded that such a findings are consistent with the overconfidence of management and/or large individual benefits, but not with the traditional agency-based incentive problem.

The concept of Mergers and Acquisition

Mergers and acquisitions have been used interchangeably in some literature. Other literature also consider mergers and acquisitions as am inseparable words and thus consider them as the same. Moctar and Xiaofang (2014) observed that the terms merger and acquisition are often used interchangeably. However, the authors argued that there are some differences. Moctar and Xiaofang (2014) thus defined a merger as the combination of two or more companies into one larger organization. Such actions are normally intentional and mostly leads to a new

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company name (often combining the names of the original organizations). Similarly, Marfo and Agyei (2013) defined a merger as an arrangement whereby the asset of two organizations become vested in or under the control of one company (which may or may not be one of the original two companies), which has all or substantially all, the shareholders of the two companies. Gupta (2012) also argued that a merger is the amalgamation of two firms in which only one firm survives and the merged firms ceases to exist, in which the acquiring company assumes the assets and liabilities of the merged company. In the same vein, Gupta (2012) defines merger as 'a combination of two or more corporations in which only one corporation survives'.

On the other hand, according to Moctar and Xiaofang (2014), acquisition is a corporate action in which the acquiring company purchases all of the existing ownership shares of the target company in order to assume all the control and decision rights of the target company. According to the authors, once the acquisition is done, the target company becomes a part of the acquiring company. Similarly, Selvam et al. (2009) contend that an acquisition is the purchase of one company by another. In literature, acquisitions are classified as either friendly or hostile depending on whether the target firm is willing to accept the acquiring firm's bid and whether the acquiring firm makes an offer to the target firm's incumbent board of directors and management before announcing its intentions publicly. On the other hand, acquisition is considered hostile if the incumbent management of the target company is against the acquisition or the acquirer circumvents the incumbent management of the target firm and bids directly for the shares of the target firm.

In addition, Sudarsanam (2003) argues that terms such as merger, acquisition, buyout and takeover are used interchangeably and are all part of the parlance of mergers and acquisition. However, the author was quick to point out the differences when he described a merger as the process whereby companies come together to combine and share their resources to achieve common objectives with the owners of the combined firms still holding part of their ownership and this may sometimes lead into a new entity being formed. The author further indicated that acquisition looks more like an arm's length deal, with one company buying the assets or shares of the other and the shareholders of the acquired firm ceasing to be owners of the new firm. Sudarsanam's view conforms to those of Akben-Selcuk (2011), who argued that the major difference between a merger and acquisition is essentially what the fate of shareholders becomes. According to the author, in the case of acquisition, the shareholders of acquired firms are paid off and thus there is no disinvestment of the shareholders of the combined companies in the case of merger. From the distinction above, it is ostensible that a merger occurs when two or more companies transfer their businesses and assets to a new company (or to one of themselves) and in consideration, their members receive shares in the transferee company.

Empirical Review on the Impact of M&A on performance

Performance in relation to financial firms both after and prior to mergers and acquisitions can be viewed by using accounting data and information (Moctar & Xiaofang, 2014). Many studies have established a relationship between performance and merger and acquisition activities. For instance, Rao-Nicholson, Salaber and Cao (2016) undertook a study to examine the impact of mergers and acquisition on performance of ASEAN countries, using data from 2001 to 2012. The authors found that M&A completed in periods of financial distress are more profitable than those completed outside crisis period. In another study in China, Li, Le and Zhang (2016) empirically assessed the impact of mergers and acquisition

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on the performance of Chinese listed companies. The study examined the performance of 24 Chinese listed companies during the 2008 global financial crisis. The evidence showed that mergers and acquisition had improved the performance of the firms. In Belgium, Ooghe et al. (2006) found that the profitability level of the acquirer was not in line with the objectives of the acquisition. Similar results were also offered by Kumar (2009) in a study on companies in India within a period of three years before and after mergers and acquisitions. Conversely, Akktar and Iqbal (2014) observed a significant change to the operating profit for companies in Indonesia after mergers and acquisitions over past five years.

Evidence obtained by Zaremba and Plotnicki (2016) from Central and Eastern Europe also revealed that mergers and acquisition positively impact on the long-term performance of companies. Marimuthu (2008) and Kumar (2009) on the other hand, observed that there was a decline in asset utilization after a merger and acquisition firms in India. Ghosh and Jain (2000) also observed a significant increase in the financial leverage of companies that merged in the United States. Huang (2010) also reported in China that there was a significant increase in financial leverage following the acquisition. However, same cannot be said of studies conducted in India (Kumar, 2009) and in Pakistan (Akktar & Iqbal, 2014). On the other hand, Beena (2006) observed no significant difference in the rate of return and profit margin between the periods before and after the mergers.

Das (2000) also compared the pre-merge and post-merger operating profit margin for a sample of 14 acquiring firms and observed a decrease in profitability in eight of these firms after merger. When pre-merger profitability (an index of efficiency of a company) of acquirer and target companies were compared, Das (2000) found that the acquiring companies had higher pre-merger profitability in 18 of the 25 merge cases measured. Further, Das (2000) compared the pre-merger average net sales (an index of firm size) for the acquirer and target firms and observed that in eighty six percent (86%) of the cases, acquiring companies had higher pre-merger sales. Another study conducted by Pawaskar (2001) also shows that mergers did not lead to excess profits for the acquiring firm. Similarly, Mantravedi and Reddy (2008) investigated Indian acquiring firms and observed minor variations in terms of impact on operating performance following mergers, in different sectors of Indian industries. A study conducted by Saple (2000) also supports these findings. Saple (2000) found that mergers did not result to an enhancement in performance as measured by profitability (return over net assets) adjusted for the industry average. Comparing the pre-merger profitability of the firms involved with the industry average, Saple (2000) found that the target firms were better than industry averages while the acquiring firms had lower than industry average profitability.

In Africa, few studies have been conducted to test whether mergers and acquisition leads to an improvement of the profitability of banks. An extensive range of performance indicators were applied in these studies, ranging from simple statement of financial position and income statements ratios to more advanced statistical efficiency measures. In West Africa, most of the researches in the field have been conducted in Nigeria and Ghana. Available statistics show that the consolidation of the Nigerian banking sector through mergers and acquisition and organic growth resulted in a remarkable improvement on the sector as a whole (Gupta, 2002 and Ikpefan, 2012). In Kenya, Ogada, Achoki and Njuguna (2016) examined the effect of diversification on the financial performance of financial service institutions. The authors found evidence to support that mergers and acquisition had no significant effect on financial performance of the institutions. Similarly, in Ghana, Gatsi and Agbenu (2006) found that the

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performance of SG-SSB LTD had improved after its acquisition in Ghana. Again, Marfo and Agyei (2013) observed a significant increase in the performance of acquirer and acquiring firms in Ghana.

METHODOLOGY

Research design

This study adopted both descriptive and correlational research approaches. The study further adopted a quantitative method of data collection. In the social sciences, quantitative research methods are developed to study natural phenomena (Yin, 2013). The quantitative method of data collection involves data at a high level of abstraction than qualitative information, and examples include case study, survey, laboratory experiments, formal methods (econometrics) and numerical methods such as mathematical modeling. Similarly, quantification has a lot of advantages in empirical research, most prominent is the reduction of complex data to units considered important for a particular purpose and offers an alternative for easier processing of larger volumes of data (Yin, 2013. The study is based on the secondary data drawn from the audited annual reports of Ecobank Ghana Limited and Access Bank Ghana Limited.

The researchers focused the study on the acquisition of The Trust Bank (TTB) and Intercontinental Bank Ghana Limited by the Ecobank Ghana Limited and Access Bank Ghana Ltd respectively. These two acquisition cases were chosen because they represented the major acquisitions in the banking industry and also happened in the same year, 2012. The sample of the study includes annual audited financial reports of the acquirer banks from 2009 to 2015. This represent three years of pre-acquisition and three years of post-acquisition results of the banks. However, Access Bank Ltd had no account for the year 2009 because it started operation in Ghana in 2010. In order to analyze the financial performance of the bank, basic profitability ratios including return on capital employed (ROCE) and net profit margin (NPM) were calculated from the secondary data which were the audited financial statements including statement of financial position and statement of profit or loss.

Data Analysis Methods

The researchers organized, summarized and analyzed the data using financial ratios and regression analysis and were presented in tables. The researchers used the internationally accepted ratios as a yardstick to measure and compare the profitability performance the banks across years. Kemal (2011) argues that financial ratios are the useful indicators of a firm's performance and financial health. The author further indicated that most of the ratios are computed by the financial statements (statement of financial position, statement of profit or loss and other comprehensive income and cash flow statement) of companies. Ratios change these financial statements in a simple and comprehensible way that every person can easily understand the financial position of that particular organization. These ratios are employed to examine the trends within the same company and usage of these ratios also helps to compare the results with competitors and industry benchmarks.

The study also used ordinary lest square (OLS) regression model to estimate the impact of mergers and acquisition on the profitability of the banks. Both net profit margin (NPM) and return on capital employed (ROCE) were used as proxies for performance. These ratios were the dependent variables. In addition, mergers and acquisition activity is the independent

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variable. The mergers and acquisition activity were measure through dummy variables: zero (0) for pre-merger period and one (1) for post-merger period. The signs of the estimated coefficient of the dummy variable would suggest whether merger has a positive or negative impact on performance. In addition, firm size and age were introduced as control variables. Firm size is defined by taking the natural logarithm of the total assets of the firms and age of the firms is measured based on the number of years these banks had operated in Ghana. Based on this, the following regression models are provided:

$$NPM = \beta_0 + \beta_1 MA + \beta_2 Size + \beta_3 Age + \varepsilon$$

$$ROCE = \beta_0 + \beta_1 MA + \beta_2 Size + \beta_3 Age + \varepsilon$$

Where:

NPM = Net Profit Margin (Ratio of profit before tax to total revenue): Dependent Variable

ROCE = Return on Capital Employed (Ratio of profit before tax to total Assets): Dependent Variable

MA = Dummy for merger and acquisition periods (zero (0) for pre-merger period and one (1) for post-merger period: Independent Variable

Size = Natural logarithm of the total assets of the firms: Control Variable

Age = Number of years these banks had operated in Ghana: Control Variable

ε = Random Error

DATA ANALYSIS AND DISCUSSION

The effect of Acquisition on the performance of banks in Ghana

The pre-acquisition and post-acquisition performance of Ecobank Ghana Ltd and Access Bank Ghana Ltd were subjected to analysis to ascertain how the companies performed prior to acquisition and after acquisition of the Trust Bank Ghana Limited and Intercontinental Bank Limited respectively. The financial indicators presented in this section are the total annual revenue, total assets, net profit margin and return on capital employed. The total annual revenue and total assets values are given in millions of Cedis whilst the net profit margin and return on capital employed are presented in percentages. The values, presented in Ghana Cedis (GHS) and ratios of the banks prior to acquisition and after acquisition are presented in Table 1.

Table 1: Descriptive Statistics

	Pre-acquisition Years				Post-acquisition Years		
Variables	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Ecobank Ltd							
Total Revenue (millions)	159.9	180.2	231.5	432.4	583.6	844.3	1,025.8
Total Assets (millions)	1386.9	1,521.2	2,128.0	3,378.9	4,624.4	5,669.6	6,587.5
Net Profit Margin	45.5	50.3	44.3	45.4	44.9	51.3	50.0
ROCE	5.2	6.0	4.8	5.8	5.7	7.6	7.0

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Access Bank Ltd							
Total Revenue (millions)	-	22.1	25.0	125.9	147.5	237.7	267.1
Total Assets (millions)	-	196.8	280.1	797.3	991.3	1,718.7	2424.4
Net Profit Margin	-	54.3	52.0	36.7	48.7	51.8	45.9
ROCE	-	6.1	4.6	5.8	7.2	7.2	5.1

It can be ascertained from Table 1 that Ecobank Ghana Limited observed high growth in revenue after acquisition. It is found that the bank increased its revenue from GHS 160,000,000 in 2009 to GHS 180,200,000.00 in 2010. This represents a 12.7% growth. Again, in 2011, the income increased to GHS 231,000,000.00, representing a 28.47% growth. However, after acquisition in 2012, there was an astronomical increase in income by almost double (86.78%). The growth was somehow reduce in 2013 where revenue growth of 34.97% was observed. In 2014, the sales increased to GHS 844,300,000.00, representing a 44.67% growth. In 2015, the growth rate of income of Ecobank increased at a decreasing rate by 21.50%.

It can also be observed from Table 1 that Access Bank Ltd increased its revenue from GHS 22,100,000.00 in 2010 to GHS 25,000,000.00 in 2011, thus representing a 13.12% growth. Similarly, in 2012, the revenue increased to GHS 125,900,000.00, representing a more than quadruple growth of 403.60%. However, two years after acquisition (2013), there was a marginal increase in revenue by 17.16% to GHS 147,500,000.00. The revenue of Access Bank Ltd further increased in 2014 by 61.15% to GHS 237,700,000.00. The revenue of Access Bank further observed a marginal increment in 2015 to GHS 267,100,000.00. Based on this result, it can be observed that the income of both banks observed an astronomical growth after acquisition. These results do not confirm the findings of Das (2000) who compared the pre-merger average net sales (an index of firm size) for the acquirer and target firms and observed that in eighty six percent (86%) of the cases, acquiring companies had higher pre-merger revenue.

It can further be observed that the total assets of Ecobank increased from GHS 1,386,900,000.00 in 2009 to GHS 1,521,200,000.00 in 2010, representing a growth of 9.68%. Table 1 further shows that the total assets in 2011 increased by 39.89% to GHS 2,128,000,000.00. After acquisition, the total assets of Ecobank, as shown in Table 1, which stood at GHS 2,128,006,000 in 2011 increased significantly by 58.78% to GHS 3,378,890,000.00 in 2012. It can also be ascertained from Table 1 that the total assets of Ecobank increased to GHS 4,624,400,000.00 in 2013, representing 36.86% growth rate. Again, Table 4.1 shows that the total assets increased by 22.60% to GHS 5,669,600,000 and in 2015, a decreased growth rate of 16.2% was observed.

Similarly, the total assets of Access Bank Ltd after acquisition was better than the pre-acquisition total assets. Table 1 shows that the total assets of Access Bank Ltd was slightly better in 2011 (GHS 280,100,000.00) than in 2010 (GHS 196,800,000.00). Again, the total assets of Access Bank Ltd immediately after acquisition in 2012 increased to GHS 797,300,000.00, which represents a substantial 184.65% growth rate. On the other hand, the total assets of Access Bank Ltd a year after acquisition in 2013 increased to GHS 991,300,000.00 which also represents an increase of 24.33%. Similar trends were observed in 2014 and 2015, where the total assets were GHS 1,718,700,000.00 and GHS 2,424,400,000.00 respectively. Similar to the total revenue, the total assets of the banks

increased substantially after acquisition, obviously because of the amalgamation of the assets of both the acquired and acquirer banks.

As can be obtained in Table 1, the net profit margin of Ecobank improved from 2009 to 2011. It can be ascertained from Table 1 that Ecobank increased its net profit margin from 45.5% in 2009 to 50.3% in 2010. This represents a growth rate of 10.55%. Again, in 2011, the net profit margin was 44.3% representing a decline in growth by 11.93%. However, after acquisition in 2012, there was a marginal increase in the net profit margin to 45.4%. This represented an increase in net profit margin by 2.48%. The net profit margin decreased in 2013, with a net profit margin of 44.9%, which also accounted for a decrease of 1.10%. However, the net profit margin of Ecobank increased to 51.3% in 2014, which also represented a 14.25% growth rate. Again, a 2.53% decrease in net profit was observed in 2015.

From Table 1, it can further be ascertained that the net profit margin of Access Bank Ltd decreased from 54.3% in 2010 to 52.0% in 2011. This represents a decrease of 4.24%. Similarly, in 2012, the net profit margin was 36.7%, representing a decrease growth rate of 29.42%. However, two year after acquisition in 2013, there was a decrease in the net profit margin to 48.7%. On the other hand, the net profit margin of Access Bank Ltd increased to 51.8% in 2014, which also represented a 6.37% growth. However in 2015, the net profit margin of Access Bank Ltd decreased by 11.39% to 45.9%. Despite the fact that there was an increase in income, net profit and net interest income, the net profit margin of both banks did not increase in those directions. This suggests that those growth were achieved with a disproportionate increased in administrative and marketing cost. Nonetheless, it can generally be observed that the net profit margin of Access bank after acquisition was better that the pre-acquisition net profit margin.

With regards to return on capital employed (ROCE) of Ecobank, there was an increase in this ratio in 2010 by 15.58%. Conversely, the ROCE of Ecobank decreased in 2011 to 4.8% from 5.2% in 2010, indicating a 20.0% decrease. After acquisition in 2012, Ecobank observed an increased return on capital employed to 5.8% which accounted for a growth of 20.83%. On the other hand, ROCE decreased in 2013 to 5.7%, which also accounted for a decrease of 1.72%. Further, the ROCE of Ecobank increased to 7.6% in 2014 which also represented a 33.33% growth. Again, the ROCE of Ecobank decreased in 2015 to 7.0%.

Table 1 further shows that the return on capital employed (ROCE) of Access Bank Ltd decreased in 2011, from 6.1% to 4.6%, representing a decline by 24.59%. Immediately after acquisition in 2012, the Access Bank Ltd observed an increase in return on capital employed to 5.8%, which accounted for a growth of 26.09%. The ROCE of Access Bank further increased in 2013 to 7.2%, which also represent an increment of 24.14%. In 2014, the ROCE of Access Bank Ltd did not increase thus remaining at 7.2%. Further, the ROCE of Access Bank Ltd decreased to 5.1% in 2015, which also represented a decline of 29.17% in growth. This shows that the banks utilized their assets more efficiently to earn more profit after acquisition.

Regression Results

Table 2 and 3 presents the results on the impact of business consolidation on the financial performance of banks in Ghana. Two variables, net profit margin (NPM) and return on capital employed (ROCE) were used as a measure of the financial performances of the banks.

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Table 2: Impact of Consolidation/M&A on Net Profit Margin (NPM)

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t-test	Probability
Constant	58.55	3.131		27.46	.011
MA	0.167	0.0074	0.941	8.64	.046
Size/Total Assets	0.208	0.0191	0.157	9.34	.072
Age	0.088	0.0176	0.071	5.65	.064

$\alpha = 0.05$; $R^2 = 0.637$; Adjusted $R^2 = 0.581$; F-Stat. = 137.2; Prob. of F-Stat. = 0.003

Table 2 presents the regression result on the impact of mergers and acquisition on the net profit margin of the banks. The evidence shows that mergers and acquisition (M&A) had a significant and positive impact on profitability. The result shows that the size of mergers and acquisition (M&A) obtained a coefficient of 0.167. With a coefficient of 0.167, it means that the mergers and acquisition (M&A) activities had a 16.7 percent impact on NPM, with all variables held constant. With respect to the control variables, the evidence indicates that all the two variables: size and age of the firms have a positive and insignificant impact on NPM. Table 2 further shows that the R^2 and Adjusted R^2 of the model were 0.637 and 0.581 respectively. With an R^2 of 0.637, it means that the variables in the model are able to explain the dependent variable (NPM) up to 63.7%. Table three below also presents the regression result on the impact of consolidation or merger and acquisition on the return on capital employed of the banks.

Table 3: Impact of Consolidation/M&A on Return on Capital Employed (ROCE)

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t-test	Probability
Constant	64.37	3.751		23.52	0.008
MA	0.251	0.0068	0.235	6.78	0.039
Size/Total Assets	0.247	0.0167	0.281	8.35	0.057
Age	0.152	0.0199	0.146	6.06	0.052

$\alpha = 0.05$; $R^2 = 0.685$; Adjusted $R^2 = 0.608$; F-Stat. = 163.5; Prob. of F-Stat. = 0.002

The results on the impact of mergers and acquisition (M&A) on the ROCE of the banks is also presented in Table 3. Table 3 shows that the coefficient of mergers and acquisition (M&A) is 0.251. This means that mergers and acquisition (M&A) has 25.1 percent impact on EOCE, holding the other variables constant. Additionally, the level of impact is significant since the probability (p = 0.008) is less than 5%. The result further shows the control variables: size and age had a coefficients of 0.247 and 0.152 respectively. These coefficients suggests that age and size of firms has a 24.7 and 15.2 percentage impact on ROCE respectively. However, the level of impact is insignificant since the respective probability (p = 0.057 and p = 0.052) are more than 5%. It can further be ascertained from Table 3 that the R^2 and Adjusted R^2 of the model are 0.685 and 0.608 respectively. The R^2 of 0.685 means that about 68.5 percent of the variations in the dependent variable (i.e. ROCE) is explained by the independent variables. Further, the probability of the F-statistic is 0.002, which is less than the α of *0.05*, suggesting that the model is a good fit.

The analysis shows that the profitability of Ecobank Ghana Ltd and Access Bank Ghana Ltd

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observed an improvement after the merger and acquisition activities in 2012. In majority of the instances, the profitability of the banks multiplied or increased substantially immediately after acquisition and a consistent growth was observed for subsequent years, even though at decreased rates. This shows better performance in the post-merger era. These results largely confirms the findings of similar studies conducted in West Africa and in Ghana. In Nigeria, the findings of Ikpefan (2012) provided evidence that the consolidation of the Nigerian banking sector through mergers and acquisition and organic growth resulted in a remarkable improvement on the sector as a whole. Similarly, Gatsi and Agbenu (2006) found that the performance of SG-SSB LTD had improved after its acquisition in Ghana. Again, Marfo and Agyei (2013) observed a significant increase in the performance of acquirer and acquiring firms in Ghana. Apart from Africa, the findings confirm the results of similar studies in other parts of the world. In Pakistan, Akktar and Iqbal (2014) found a significant change to the operating profit for companies after mergers and acquisitions. Similarly, Zaremba and Plotnicki (2016) and Li, Le and Zhang (2016) noted that there was a significant change from the asset management after mergers and acquisitions in Central and Eastern Europe and China respectively.

This results however are in disagreement with prior studies that established that the level of profitability before acquisition are higher than post-acquisition profits. For instance, when pre-merger profitability of acquirer and target companies were compared, Das (2000) found that the acquiring companies had higher pre-merger profitability in 18 of the 25 merge cases measured. Another study conducted by Pawaskar (2001) also shows that mergers did not lead to excess profits for the acquiring firm. This result regarding ROCE are however not in line with the findings of Ogada, Achoki and Njuguna (2016) and Kumar (2009) who observed that there was a decline in asset utilization after a merger and acquisition firms in Kenya and India respectively.

CONCLUSION

The study examined the impact of mergers and acquisition on the profitability of the Ghanaian banking industry. Ratio and regression analysis were used to assess the level of impact on the performance of the selected banks after acquisition. The trend from the financial analysis of the banks showed that the growth in profitability was better after acquisition in 2012. Specifically, it was revealed that both Ecobank Ghana Ltd and Access Bank Ghana Ltd observed high growth in revenue after acquisition. Again, the total assets of the banks increased significantly after acquisition. In addition, both the net profit margin (NPM) and return on capital employed (ROCE) of the banks increased immediately after acquisition. However, NPM and ROCE of both banks declined three years after acquisition. It must however be stated that the decline in performance of the banks in 2015 was not peculiar to the two banks. The regression results further showed that merger and acquisition activities had a positive and significant impact on both net profit margin (NPM) and return on capital employed (ROCE).

The study further revealed that the NPM and ROCE did not increase as much as the increment in revenue and total assets. This might be as a result of excessive expenditure after the acquisition. It is recommended that companies should not only concentrate in increasing its volumes at all cost. They must also be watchful of the resources used to achieve these results. On the basis of this study, it is recommended that organizations should use mergers

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and acquisitions as a corporate expansion strategy. Corporations should also use other strategies such as retrenchment and reorganization to reduce cost associated with acquisition.

FUTURE RESEARCH

The study was limited to the acquisition of Trust Bank of Ghana Limited and Intercontinental Bank Ltd by Ecobank Ghana Limited and Access Bank Ghana Ltd respectively. A bigger sample covering a longer time period would have given better results, however, there were few cases of mergers and acquisition in the banking sector during the period. It is however recommended that further studies should be extended to cover additional merger and acquisition activities, particularly in different sectors. In conclusion, the evidence support that mergers and acquisition significantly impact on the NPM and ROCE of banks.

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