The Impact of Mergers and Acquisitions in Ghanaian Banking Sector: Societe Generale Ghana and UT Bank Perspective

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Abstract

Ghana has seen a greater number of mergers and acquisitions in the banking industry over the last 20 years as compared to the telecommunication sector. The subject is about the desire of firms to acquire others or join forces together. Some of these transactions have been successful; others, unfortunately, less so. Studies done on mergers and acquisitions have not conclusively established whether or not Ghanaian banks benefit from mergers and acquisitions. This study was conducted to evaluate the impact of mergers and acquisitions on the Ghanaian banking sector with reference to SG-SSB and UT bank. The objective of the study was to determine the contribution of mergers and acquisitions on the financial performance of banks, assess the post-merger and acquisition impact on shareholders' value and examine the effect of mergers and acquisitions on the profitability of financial institutions. A sample of two (2) firms was used for this study out of the population of over fifteen (15). The main data for this study came from financial reports from the chosen banks and the Bank of Ghana's website. It has been found that mergers and acquisitions had a major impact on both profitability and return on shareholder's equity, however, there was no significant impact on financial performance after the merger and acquisition.

1. Introduction

Mergers and Acquisitions (M $ A) have been on the rise in recent times in Ghana and have been a standard phenomenon in most institutions including mutually private sector and public sector business [33]. Among those companies are AirtelTigo; merger between Airtel and Tigo in the year 2017, mergers and acquisition in the financial sector was Société Générale's acquisition of Social Security Bank in 1994 [38]. Fortis equity fund Ghana acquisition of Merchant Bank in 2014, acquisition of provident life and Express life by Old Mutual and Prudential Plc in the insurance industry respectively, acquisition of Fan Milk International by Abraaj, acquisition of Benso oil palm plantation by Wilmor Group, etc [41]. In the pharmaceutical industry, Dannex pharmaceutical company acquired Starwin Products and Aryton Drugs manufacturing Limited.

It must be noted that the banking industry constitute the highest number of mergers and acquisition in Ghana [10, 43].

Many researchers [42, 44] have argued that the recent upsurge in mergers and acquisitions is due to increasing interest in the local market by foreign investors. Harvey [20] also posit that mergers and acquisition is one of the

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prominent tools companies adopt as corporate strategies to help respond to changes in the business environment and globalization.

According to Farcarelli [18] a bank merger only occurs by adding the liabilities and assets of the Active (Bidder) Bank to that of the Target (Passive) Bank; while changing the target bank's name to that of the bidder's through a series of legal and administrative procedures.

One of the fundamental goals of most mergers and acquisition is to boost growth, maximize shareholders' growth, eliminate competitions and enhance competitive advantages [10, 20, 27, 30]. Moreover, mergers and acquisition aids business to increase market power and become dominant players in the industry they operate [4].

In the past years, the Bank of Ghana has introduced many transformations in the banking sector which have led to banks having to engage in mergers and acquisitions as an alternative of meeting these directives. In the year 2008, one of the major reforms was the pegging of the minimum capital adequacy of banks at GH¢ 60 million which was further revised after five years to GH¢ 120 million. Researches indicate that a substantial number of mergers and acquisitions in the banking industry in Ghana were determined mostly on account of recapitalization where the central bank of Ghana requested Commercial banks to increase their capital to a certain threshold [4, 37].

However, it has been established that not all mergers and acquisitions resulted in improvement of the fortunes of the acquirer and make them better. In most economies such as Ghana, many financial institutions that have undergone through these processes have gone out of business or failed. Remarkable among them is UT bank and a Merchant bank in the year 2017 [31]. In Ghana, mergers and acquisitions have been rather unpopular due to Ghana's unique entrepreneurial culture and her business and political environment.

1.1. Statement of the Problem

The banking sector has experienced a steady increase in the level of Mergers and Acquisitions both foreign and local institutions resulting in a change of ownership structure of banks. This revolution could also be attributed to factors such as the Bank of Ghana's continuous change in regulations regarding the minimum capital requirement to operate and the liquidation challenges being faced by many banks.

Researches have tried to establish the growth of financial institutions after they have undergone mergers and acquisitions but there have been no tangible results regarding the above. Firms benefit from mergers and/or acquisitions depending on the mode of financing and valuation model used and the performance of stock negative effect on

profitability [9, 33].

The question then is why some firms strive in all aspect of their business to create shareholder value as a key justification for any mergers or acquisition [11], whiles others fail after undergoing a merger or an acquisition process? It could clearly be deduced that previous studies have no clear stands regarding the performance of firms that have merged or acquired. Prior studies have either focused on a return to shareholders, stocks, a method of financing, policies or strategies for measuring the impact of mergers and acquisitions.

This paper therefore seeks to examine and expose on the post-merger or acquisition implications in the Ghanaian banking sector with a focus on both financial performances, return to shareholders and profitability variables.

1.2. Research Objectives

This paper seeks to assess the effect of merger and acquisition on the financial performance indicators of merged or acquired firms in the Ghanaian banks with specific reference to SG-SSB and UT bank. The study contributes to the limited body of researches available on the subject in a Ghanaian context.

2. Literature Review

Definition of Mergers and Acquisitions

The terms merger and acquisition are often used interchangeably. A merger refers to the combination of two or more corporations into one new entity, with the purpose of sharing resources to achieve common objectives [38]. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). There are no external funds required [26]. An acquisition, on the other hand, is the purchase of an entity by another firm and assuming all or a considerable parts or an entire company [36]. According to Harvey [20], a merger is a business combination involving two or more independent firms on almost similar terms under a joint ownership of the former two owners. Harvey [20] further argued that acquisition is a situation where one entity buys all the shares or substantially all the shares in another company with ownership of the company vested in the acquirer company.

Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. The bidding company will raise financing for the tender offer through the issue of new debt or equity [26]. Tender offers usually come in the form of cash, or shares in the new company, or some other form of security [35].

One plus one equals to three: this equation is the special experimentation of a mergers or an acquisition. The main principle behind buying a company is to create shareholder

value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies - at least, that's the reasoning behind M&A. This validation is particularly fascinating to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost-efficient company. The companies will come together hoping to gain a greater market share or to achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone.

2.1. Theoretical Review

2.1.1. Bank Concentration Theory

"The Bank Concentration theory was postulated by Boyd and Runkle and Demirguc-Kunt and Levine [12, 17] which was divided into bank concentration into the Pro-Concentration and De-concentration theories".

According to Pro-Concentration theory, economies of scale tend "to be the major driver of bank mergers and acquisitions". According to this theory, concentration of banks improves bank stability, profitability and reduces the bank's fragility. Concentration of banks into few large banks makes monitoring of their activities by the regulator much easier. This in effect, leads to effective corporate control and less pronounced risk of contagion as asserted by Demirguc-Kunt and Levine [17].

In the case of De-concentration theory, concentration of banks into few large ones, do not only make them "too big to fail" but also makes them "too big to discipline". This in effect, will make the limited large banks have the opportunity to influence banking regulations and policies that govern their conduct within the industry.

2.1.2. Hubris Theory

Hubris theory adopts a psychological approach to describe the rationale behind mergers and acquisitions. This theory assumes that managers of the acquiring firm tend to overestimate their abilities in turning around the fortunes of target firms. By this, managers of the acquiring firms due to their over optimism tend to make erroneous decisions which are often overpriced as indicated by Trautwein [41].

2.1.3. The Agency Theory

The agency theory implies that mergers and acquisitions result from investors and/or managers cognitive biases or the inherent conflicts of interests between managers and investors [9]. Under the Agency hypothesis, it is assumed that managers and shareholders have different interests because the management and control of a company are separated [33]. This theory result from managements desires to increase their wealth at the expense of the shareholder. When the managers of a company do not have significant

control in the firm, they may act in such a way that decreases the value of the firm [26].

Under the synergistic theory, firms merge because the value of the combined firm is greater than the sum of the values of the individual firms [26]. When two separate firms who are already performing well on their own decision to combine for the purpose of performing even better as one firm, the synergistic theory can be said to have occurred. This theory is of the view that firms merge or acquire in order to achieve greater efficiency [9]. The synergistic theory can be represented by the formula:

$$PV (AB) > PV (A) + PV (B),$$

PV (AB) = Value of combined firm

PV (A) = Acquiring firm

PV (B) = Target firm

Where AB represent the value of the merged firm which is greater than the value of company A and company B individually combined. Synergy can be classified into two; that is operational and financial synergy. Operational synergy occurs when a merger between two firms reduces the average cost of production whiles financial synergy occurs when a merger between two companies reduces the average cost of financing the firms' activities.

Operational synergy leads to economies of scale and economies of scope. Economies of scale are the reduction in the average cost of production due to the expansion resulting from the merger. Economies of scope, on the other hand, are the improvement in efficiency of both firms due to complementing factors. Example the target firm might have deficiencies in the area of human resource but good physical assets, whereas the acquiring firm may also have good human resource but lack in the area of assets. When such firms merge, they turn to make up for each other's weakness. Firm's efficiency is represented by the formula,

q = Market value of the firm's assets/their replacement value.

Financial synergy, on the other hand, occurs when a merger between two companies results in a reduction in the average cost of financing the firm's activities. These arise as a result of;

i. Tax gains: When the bidder is profitable and the target company is making a loss than the total tax burden of the two firms can be reduced by the merger.

ii. Increase in debt capacity: The debt capacity of the combined firms will be greater than the sum of debt capacity of the individual firms. This will lead to a greater tax benefit.

iii. Opportunities from internal financing: One company may be generating lots of cash that must be returned to investors (perhaps it is coming to the end of its natural life and can't

find any positive Net Present Value projects to invest in), While the other company may need lots of cash for investment (perhaps it is a young firm in its growth stage).

The undervaluation theory says that companies merge because one of the companies involved is undervalued. It relies on the assumption that the market is inefficient; the market price of the target company does not reflect the present value of its expected future cash flows [26]. After the bidder acquires the target firm, it either holds on to it, reaping an excess return on its investment, or it can re-sell it.

Sometimes the bidding firm will split the target firm after the merger or acquisition, into its component divisions and sell these separately. This is known as asset stripping.

The pure diversification theory implies that firms undergo mergers and acquisition in the quest to reduce business risk. This theory is particularly associated with conglomerate mergers. Under this theory it believed that mergers and acquisitions take place with the aim of making a firm's human capital more valuable and productive, and to increase the probability that the organization and reputation capital (goodwill) of the firm will be preserved by the diversion to another line of business owned by the firm in the event its initial industry declines.

The pure diversification theory, unlike the shareholder portfolio diversification, focuses on preserving the human capital investment of a firm. Under this theory, it is believed that shareholders can efficiently spread their investment and risk among industries, therefore there is no need for companies to diversify for the sake of their shareholders.

2.2. Empirical Studies

According to Gaughan [19], Chen and Findlay [13], mergers and acquisitions can be categorized into either vertical, horizontal and a conglomerate. Chen and Findlay, [13] indicated that, vertical mergers and acquisition are business combinations involving companies in different level in the value chain of an industry like a client-supplier relationship. This type of merger allows the acquiring firm to reduce business risk in either supply of raw materials or distribution systems or manage costs incurred in these services, thereby maximize profits. In the case of horizontal mergers, the acquiring firm buys another company in the same industry and level of business activity. Chen and Findlay [13] further opined that this type of acquisition has increased speedily in the core of globalization, restructuring in many industries across the globe and increased competition. Most of acquisitions in Ghana, predominantly the banking sector falls under this category.

Researchers have tried to come up with reasons why firms go into mergers and acquisitions and notable among the many reasons is the need to cut down cost and increase market shares. Companies merge or acquire in order to create value

above the sum of the separate firms, otherwise known as synergy [28].

Moctar and Xiaofang [29] describes acquisition as the purchase of one firm by another firm. They argue that the action of the purchase could be hostile or friendly as the case maybe but the significant part is that the acquirer takes control of the acquiree.

Financial performance is basically a measure of activities carried out by a firm to achieve its financial goals. Akenga and Olang [5] defined financial performance as the results of a firm's policies and operations in monetary terms.

Several approaches have been used in the past to measure the impact on financial performance after mergers and acquisitions. The research of Akenga and Olang [5], studied the correlation between assets growth and financial performance as a measure of impact on financial performance after merger and acquisition. The study found an insignificant relationship between asset growth and financial performance. Pahuja and Aggarwal [34] also focused on stock prices using an event study approach to determine the impact of merger and acquisitions on financial performance. The result of their study also provided no significant evidence of an impact on financial performance. A study by Harvey [20], established all performance variables to have declined except Gross Operating Margin. These approaches used in the past have provided little or no evidence of an improvement of decline in financial performance after a merger or an acquisition.

Salami [37] studied the effect of mergers and acquisition on the banking industry in Ghana which used Société Générale as the case study. The research findings indicated improvement in financial performance of the bank after the acquisition. Yet, the was no evidence in evidence of cost reduction in the post-acquisition period.

Further studies conducted to investigate and examine M&A, their purposes, as well as their effects and implications for economies are quite extensive and categorized into implicit and explicit motives [25]. The explicit motives are the reasons actually given by company management, while the implicit motives refer to reasons that can be suspected but are not confirmed by the management. They however argued that economic motive lay below each and every decision a profit-seeking firm makes and could be viewed as an indirect motive of M&A.

Several researches have considered merger motives based on the effect of the merger on performance as measured by the accounting profit [33] or the share prices of firms [4]. The results of these studies indicate that, if company performance increases, there is evidence that the merger created either market power or efficiency gains, otherwise the merger failed to create value.

Further studies by Adoma [3] observed the effect of mergers and acquisition on firm performance in Ghana using Guinness Brewery Ghana Limited as a case study which used both primary and secondary data to achieve the set objectives. The secondary data involved financial information for 2 years before the acquisition and 5 years after the acquisition. The study concluded that there was a consistent improvement in the financial performance of the company after the merger and acquisition. The causal factors for this enhanced financial performance were employee commitment, supply of raw materials, innovative marketing, etc. They also reported that the merger process confronted challenges in the area of the cost of the business combination, source of finance, regulatory compliance, integration of information technology systems among other factors.

Amegah [7] also researched on the effect of mergers and acquisitions on the acquiring organization's financial performance within the Ghanaian economy. The study focused on "the acquisition of Ghana Telecom by Vodafone". It was concluded that "there was a decline in profitability, operating expense and financial leverage. Liquidity on the hand had been on the rise". This as a result indicated an improved post-acquisition performance in some areas and decreased post-acquisition performance in other areas as well.

2.2.1. Effect of Mergers and Acquisitions on Profitability

Profitability measures a firm's ability to sustain income, stability, and growth. Different variables have been used by past studies in determining the profitability of merged or acquired firms putting more emphasis on Return on Assets and leverage as a basis for measuring profitability [16, 34]. The study found mergers and acquisitions have positively impacted the profitability of consolidated firms.

2.2.2. Effect of Mergers and Acquisitions on Shareholder's Equity

Maximizing shareholder's equity has been the main objectives of most mergers and acquisitions. The study of Kumshe et al [24] found earning per share to have increased after mergers and acquisition. The study of Adegboyega & Dele [2] also concluded that mergers and acquisitions have a positive effect on shareholders' wealth by comparing the relationship between changes in capital base and shareholders' wealth.

2.2.3. Effect of Mergers and Acquisitions on Financial Performance

According to Akenga and Olang [5], financial performance is essentially a measure of activities carried out by a firm to achieve its financial goals. Akenga and Olang [5], studied the correlation between assets growth and financial performance as a measure of impact on financial performance after merger

and acquisition. Their research found an insignificant relationship between asset growth and financial performance.

2.3. Hypotheses

Based on the above reviewed theoretical and empirical literature, this paper focuses on testing the following null.

H01: Profitability levels of the banks before and after the merger and acquisition are not significantly different.

H02: There is no significant effect on returns of shareholder's equity before and after the merger and acquisition

H03: There is significant effect on financial indicators (namely, Current Ratio (CR) and Sale Growth (SG)) on the merger and acquisition

H04: There is no significant relationship between financial performance and the merger and acquisition.

3. Methods and Materials

This study employed the descriptive quantitative approach and convenience sampling to select the two banks. By the definition of Creswell [14], the descriptive research technique is more suited to accomplishing these research objectives. As a result, the main research design opted for in this study was the descriptive research. A convenience sampling approach was employed in the data collection. A combination of qualitative and quantitative research methodology to produce more complete knowledge necessary to inform theory and practice were used as postulated by Onwuegbuzie et al [32].

3.1. Population and Sampling Procedure

The population of this study comprised of the over 15 banks that have merged or acquired in Ghana since the year 2004 to 2018. The sample of interest out of the population were UT bank and SG-SSB Bank. In effect, the sample of two (2) firms were used primarily due to data availability and reliability which provided a better comparative analysis of a financial statement and also led to a high level of accuracy.

3.2. Analysis of Data

Data obtained from financial statements were well analyzed with the help of Microsoft Excel application and SPSS statistical software. The analyzed data was presented by the use of percentages, frequency tables, and pie charts. Data were analyzed based on variables relating to the objectives of the research and a t-test was used to test for any differences. Due to the difference in variance of data used for the t-test, the Welch unpaired or independent t-test was used. Descriptive research method was used and an unpaired t-test was employed to analyze if there were any significant differences between pre- and post-merger financial performance.

Finally, data on the profitability of firms after merger or acquisition was also analyzed using an unpaired t-test and a descriptive research approach was also used to examine the differences in profitability variable before and after the merger and acquisition.

The t-test used for the analysis has the formula: $T = \dfrac{(X_1 - X_2)}{\sqrt{\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2}}}$

Let $\mu_d = \mu_1 - \mu_2$ be the difference between the population means pre-and post-merger/acquisition. X_1 and X_2 being the sample mean for pre- and post-merger/acquisition respectively. N_1 and N_2 represent the size of pre- and post-merger/acquisition samples. Under the null hypothesis, the test has a degree of freedom. DF= $\dfrac{(\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2})^{\wedge}2}{\frac{1}{N_1-1}\left(\frac{S_1^2}{N_1}\right)^2 + \frac{1}{N_2-1}\left(\frac{S_2^2}{N_2}\right)^2}$

The null hypothesis of no significant difference for this test is Ho: $\mu d = 0$. This null hypothesis is tested against three alternatives. That is, either a positive or negative difference ($\mu d \neq 0$), a positive difference ($\mu d > 0$) or negative difference ($\mu d < 0$). A positive difference ($\mu d = \mu 1 - \mu 2 > 0$) means the pre-merger performance was better than that of post-merger. A negative difference ($\mu d = \mu 1 - \mu 2 < 0$) on the other hand means the firm performed better after the merger or acquisition.

4. Results

In this section, focuses on the statistics of data collection and analysis of data collected (in relation to the objectives of the research and variables used for the t-test). Data for the study were mainly financial reports collected from the website of the banks used for the study and the Bank of Ghana website. Based on a purposive sampling technique a total of eight (8) financial statements were used for this study. That is four for pre-merger years and four immediately after the merger.

Table 1. Distribution of financial Reports.

Firms	Pre-merger	Post-merger	TOTAL
UT-BANK	2 (2007 & 2008)	2 (2010 & 2011)	4 years
SG-SSB	2 (2003 & 2004)	2 (2005 & 2006)	4 years
TOTAL	4 years	4 years	8 years

Figure 1. Distribution of Pre- and post-merger Data collected.

This indicates a clear distribution of secondary data (financial report) used for the analysis with respect to the years considered for the analysis. The years 2007 & 2008 (for UT-Bank), and 2003 & 2004 (for Société Générale) are the years considered as pre-merger years. The years 2010 & 2011 (for UT-Bank), and 2003 and 2004 (SG-SSB) are the post-merger years under consideration. This makes up a total of 8 years of relevant financial statement used for the study.

Figure 1 indicates an even distribution of data collected (financial statement) from the financial institutions under study. 50% of the financial reports used for the study constitute pre-merger and 50% are for the post-merger.

Table 2. Descriptive Statistics of Data on Financial Performance.

	Pre-merger/acquisition					Post-merger/acquisition				
Variables	Obs	Mean	Std. Dev	Min	Max	Obs	Mean	Std. Dev	Min	Max
DER	4	5.68	1.89	2.95	8.4	4	7.16	1.13	6.47	9.1
NICR	4	1.54	0.32	1.27	2.1	4	1.92	0.71	1.22	2.9
CR	4	1.09	0.02	1.07	1.1	4	1.08	0.11	0.9	1.2
SAER	4	7.22	1.94	5.12	9.3	4	8.17	1.66	6.09	10
SG	4	0.17	0.02	0.13	0.2	4	0.16	0.07	0.1	0.3
QR	4	0.91	0.07	0.82	1	4	0.84	0.13	0.62	0.9

Computed from Société Générale & UT Bank'S Financial Statements (2003-2011)

Table 2 examines the statistics of data collected from financial statements in relation to financial performance indicators. Debt Equity Ratio (DER), on average, increased sharply after the merger and acquisition. That is, from 5.68 to 7.16 representing a 26.06% increase. Average Net Interest charged Ratio (NICR) also increased from 1.54 to 1.92 representing a 38% rise. The standard deviation for Net Interest Charged Ratio (NICR) also increased from 0.32 to 0.7, showing higher uncertainty in the ability of the merged or acquired firm to pay it interest expenses on outstanding debt. There was no significant change in the average Current Ratio (CR) before and after the merger or acquisition. Average Selling and Administrative Expense Ratio (SAER) increased by 15.67% that is from 7.22 to 8.17. This indicates a rise in the cost of running the business after the merger and acquisition. Sales Growth (SG) decreased from 0.17 to 0.16, with standard deviation for Sale Growth (SG) also increasing after the merger and acquisition, showing greater uncertainty in the growth of sales after the merger and acquisition. Average Quick Ratio (QR) decreased after the merger by 7.69% (thus, from 0.91 to 0.84), showing a decrease in liquidity of current assets after the merger and acquisition.

Computed from Société Générale & UT bank's financial statements (2003-2011)

Table 3 gives a clear view of the changes in financial performance variables before and after the merger and acquisition. Debt Equity Ratio (DER), Net Interest Charge Ratio (NICR), Sales & Administrative Expense Ratio (SAER) and Quick Ratio experienced a significant rise after the merger and acquisition. On the other hand, the merger and acquisition did not have any significant impact on Current Ratio (CR) and Sale Growth (SG).

Table 3. Percentage Changes in financial Performance Variables.

Variables	Pre-merger	Post-merger	Percentage Change
DER	5.68	7.16	26.06% increase
NICR	1.54	1.92	38% increase
CR	1.09	1.08	0.9% decrease
SAER	7.22	8.17	15.67% increase
SG	0.17	0.16	5.8% decrease
QR	0.91	0.84	7.69% decrease

Table 4. Results of the t-statistics & p-value for alternative hypothesis (financial performance indicators) the p-value for alternative Hypothesis.

Variable	Degree of freedom	t-statistic	$\mu_{d<0}$	$\mu_{d\neq0}$	$\mu_{d>0}$
DER	6	-4.1052	0.0032****	0.0064***	0.9968
NICR	6	-0.9759	0.1838	0.3668	0.8166
CR	6	0.7188	0. 864	0.468	0.232
SAER	6	-3.744	0.0024***	0.0048***	0. 9976
SG	6	0.7746	0. 7928	0.6036	0.3964
QR	6	1.9482	0.9102	0.0796*	0. 0598**

***, **, and * indicate significance at 1 percent, 5 percent and 10 percent respectively.

Debt Equity Ratio (DER) and Sales and Administrative Expense Ratio (SAER) were positively impacted by the merger and acquisition since we reject the null hypothesis of no significant difference ($\mu d = 0$) in performance between two periods in favour of negative difference ($\mu d < 0$) between the periods. The effect on Net Interest Charge Ratio (NICR), Current Ratio (CR) and Sales Growth (SG) are all not statistically significant.

On other Quick Ratio (QR) hand was negatively impacted by the merger and acquisition at a 1 percent level of significance. Therefore, we reject the null hypothesis of no significant difference ($\mu d = 0$) in favour of positive difference ($\mu d > 0$) between the periods.

Table 5. Descriptive Statistics of the performance of Shareholder's Equity.

	Pre-merger/acquisition					Post-merger/acquisition				
Variables	Obs	Mean	Std. Dev	Min	Max	Obs	Mean	Std. Dev	Min	Max
EPS	4	0.36	0.31	0.01	0.8	4	0.45	0.32	0.03	0.7
DPS	4	0.25	0.2	0.01	0.45	4	0.35	0.2	0.05	0.45

Computed from Société Générale & UT bank's financial statements (2003-2011)

The average Earning per Share in Table 5 (EPS) increased from 0.36 to 0.45 representing a 25% increase in Earnings per Share after the merger and acquisition. Dividend per Share also showed a significant rise from 0.25 in the pre-merger and acquisition years to 0.35 in the post-merger and acquisition years, representing a 40% rise in the dividend paid on shareholder's equity.

Table 6. Results of the t-statistics & p-value for the alternative hypothesis (Shareholder's Equity).

the p-value for alternative Hypothesis					
Variable	Degree of freedom	t-statistic	$\mu_{d<0}$	$\mu_{d\neq0}$	$\mu_{d>0}$
EPS	6	-1.7041	0.0207***	0.0499**	0.9802
DPS	6	-1.7071	0.0253***	0.0506**	0.9747

***, **, and * indicate significance at 1 percent, 5 percent and 10 percent respectively
The result of the t-test shows that, the merger and acquisition did have a positive impact on both the Earnings per Share (EPS) and Dividend per Share (DPS) since we reject the null hypothesis ($\mu d = 0$) of no significant difference in return to equity between the two periods in favor of negative difference ($\mu d < 0$).

Table 7. Descriptive Statistics of Data on Profitability.

	Pre-merger/acquisition					Post-merger/acquisition				
Variables	Obs	Mean	Std. Dev	Min	Max	Obs	Mean	Std. Dev	Min	Max
GOM	4	1.35	1.2	1.13	1.56	4	1.4	1.18	1.14	1.59
NOM	4	0.42	0.2	0.21	0.69	4	0.41	0.08	0.31	0.52
ROA	4	0.05	0.02	0.05	0.1	4	0.07	0.01	0.02	0.3
ROE	4	0.35	0.03	0.45	0.53	4	0.47	0.06	0.24	0.42

Computed from Société Générale & UT bank's financial statements (2003-2011)

Table 7 shows descriptive statistics of data relating to profitability indicators. Average Gross Operating Margin (GOM) increased from 1.35 to 1.4 after the merger and acquisition. Net Operating Margin (NOM) showed an insignificant decrease after the merger and acquisition, thus from 0.42 to 0.41. Both Return on Assets (ROA) and Return on Equity (ROE) showed significantly rise after the merger and acquisition.

Table 8. Results of the t-statistics & p-value for alternative hypothesis (Profitability).

the p-value for alternative Hypothesis					
Variable	Degree of freedom	t-statistic	$\mu_{d<0}$	$\mu_{d\neq0}$	$\mu_{d>0}$
GOM	6	-0.9594	0.4773	0.5227	0.9546
NOM	6	0.982	0.929	0.4645	0.5355
ROA	6	-1.7901	0.0618	0.1236	0.9382
ROE	6	-3.5803	0.0058	0.0116	0.9942

***, **, and * indicate significance at 1 percent, 5 percent and 10 percent respectively

The t-test result in Table 8 shows Gross Operating Margin (GOM) and Net Operating Margin (NOM) show no statistically significant change, whiles Return on Asset (ROA) and Return on Equity (ROE) on the other hand were positively impacted by the merger and acquisition so we reject null hypothesis ($\mu d = 0$) of no significant difference in favour of negative difference ($\mu d< 0$).

This study examined the implications of mergers and acquisitions in the banking sector of Ghana using the case of Société Générale and UT bank. To establish whether the mergers and acquisitions had any positive or negative impact on financial performance, return on shareholder's equity and profitability, the study used performance indicators, profitability indicators and return on equity indicators based on annual financial statements covering both the pre-merger and post-merger as well as the acquisition periods.

In contrast with past researches that found almost all performance variables to have declined [20], this study, however, found Debt Equity Ratio (DER) and Sales & Administrative Expense Ratio (SAER) to have increased significantly after the merger and acquisition. This indicates an improvement in financial performance and also an increase in the level of risk exposure. However, the cost of running the business (Sales and Administrative Expense) increased.

In line with the study of Akenga and Olang [5], the merger had no significant effect on Net Interest Charge Ratio (NICR), Current Ratio (CR) and Sales Growth (SG) even though the assets of the firm increased significantly. This implies that mergers and acquisitions do not necessarily manifest into an increase in sales and the ability to meet

maturing obligations (liabilities).

Quick Ratio (QR) on the other hand decreased after the merger and acquisition indicating a reduction in the ability to easily settle maturing liabilities (obligations).

Taking into consideration the fact that major performance variables such as Sales Growth (SG), Current Ratio (CR) and Quick Ratio (GR) not experiencing any positive change, mergers and acquisitions can, therefore, be said to have no positive impact on financial performance.

In addition, prior studies by Attablayo and Kumshe et al. [8, 24] have found that shareholders enjoy positive returns after mergers and acquisition. Just like prior researchers, both descriptive statistics and t-test results showed an increase in both Earnings per Share (EPS) and Dividend per Share (DPS). This indicated the Merger and Acquisition resulted in a positive return to shareholders. This also goes a long way to show that mergers and acquisition in most cases aim to maximize shareholders interest.

Return on Assets (ROA) increased after mergers and acquisitions results [34, 16].

These results happen to be in line with that of past researchers such as Pahuja & Aggarwal and Dhanalakshmi [34, 16]. An increase in Return on Assets (ROA) and Return on Equity (ROE) indicates an improvement in the rate of revenue generation in both assets and equity of the firm. This empirical stance is supported by this study's result. Return on Assets (ROA) and Return on Equity (ROE) both increase after the merger and acquisition per descriptive and t-test results. This generally shows an improvement in the profitability of the merged or acquired firm and also confirms the theory of "synergy".

Descriptive statistics, however, showed an increase in Gross Operating Margin (GOM) and a decrease in Net Operating Margin (NOM) after the merger and acquisition. However, t-test results for both Net Operating Margin (NOM) and Gross Operating Margin (GOM) were statistically insignificant. Therefore, there was no significant change in efficiency of the firm's internal operations after the merger and acquisition.

5. Conclusion and Recommendations

Based on findings of this study, it is concluded mergers and acquisitions contributed little to the financial performance of firms. Since the Net Interest Charged Ratio (NICR), Current Ratio (CR) and Sales Growth (SG) showed no significant changes after the merger and acquisition and Quick Ratio (QR) also decreased significantly. It can, therefore, be

concluded that the merger and acquisition had no significant impact on financial performance.

With the exception of Net Operating Margin (NOM), major profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) experienced an appreciable increase after the merger and acquisition. It can, therefore, be concluded that the merger and acquisition improved the profitability of the firms.

The study makes the recommendation that deserve a higher level of management attention and priority to initiates a study that will investigate the factors that are responsible for the insignificant change in financial performance. In particular, the decline in Sales Growth (SG) and Current Ratio (CR).

Appendix

Appendix A

Table 9. Financial Performance Indicators.

VARIABLE	MEASUREMENT
IMPACT ON FINANCIAL PERFORMANCE	
Debt Equity Ratio	Total Liability/Equity
Net Interest Charge Ratio	Net Interest Charge/Turnover*100%
Current Ratio	Current Assets/Current Liabilities
Selling and Administrative Expense Ratio	Selling and Admin Expense/Turnover*100
Sales Growth	(Sales of Current year/Sales of the previous year)-1
Quick Ratio	(Current Assets-Inventories)/Current Liabilities
IMPACT ON SHAREHOLDER'S VALUE	
Earnings per Share	Profit after Tax/Number of Share outstanding
Dividend per Share	Dividends paid/Number of Shares outstanding
IMPACT ON PROFITABILITY	
Gross Operating Margin	Gross Profit/Turnover
Net Operating Margin	Profit before Tax/Turnover
Return on Assets	Profit before Tax/Total Assets
Return on Equity	Profit before TAx/Net worth

Appendix B

Figure 2. SG Income Statement for 2005 and 2006.

SG-SSB Annual Report and Financial Statements - 2006

INCOME SURPLUS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 ¢'m	2005 ¢'m
Balance as of 1 January	188,709	234,849
Net profit transferred from profit and loss account	99,440	92,857
	288,149	327,706
Transfer to statutory reserve fund	(12,430)	(11,607)
Transfer to stated capital	-	(63,265)
Dividend-proposed	(64,125)	(64,125)
Balance as of 31 December	211,594	188,709
Earnings per share (Cedi per share)	698	652
Dividend per share (Cedi per share)	450	450

The attached notes 1 to 36 form an integral part of these financial statements.

Figure 3. SG Income Surplus for 2005 and 2006.

2005 Annual Report And Financial Statements

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 ¢'M	2004 ¢'m
Interest income	21	362,721	317,147
Interest expense	22	(78,749)	(71,416)
NET INTEREST INCOME		283,972	245,731
Fee and commission income		145,763	127,065
Other operating income	23	4,522	12,696
OPERATING INCOME		434,257	385,492
Operating expenses	24	(281,617)	(217,802)
Charge for bad and doubtful debts	26	(9,092)	(22,019)
OPERATING PROFIT		143,548	145,671
Other income	27	10,214	22,999
PROFIT BEFORE EXCEPTIONAL ITEM AND TAXATION		153,762	168,670
Exceptional item	28	(5,654)	-
PROFIT BEFORE TAXATION		148,108	168,670
National reconstruction levy	12	(13,082)	(19,141)
Taxation	12	(42,169)	(43,380)
PROFIT AFTER TAXATION TRANSFERRED TO INCOME SURPLUS		92,857	106,149

Figure 4. SG Income Statement for 2004 and 2005.

INCOME SURPLUS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 ¢'M	2004 ¢'m
Balance as of 1 January	234,849	206,094
Net profit transferred from profit and loss account	92,857	106,149
	327,706	312,243
Transfer to statutory reserve fund	(11,607)	(13,269)
Transfer to stated capital	(63,265)	-
Dividend-proposed	(64,125)	(64,125)
Balance as of 31 December	188,709	234,849
Earnings per share (Cedi per share)	652	745
Dividend per share (Cedi per share)	450	450

Figure 5. SG Income Surplus for 2004 and 2005.

BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	2005 ¢'m	2004 ¢'m
ASSETS			
Cash and balances with Bank of Ghana	5	281,177	245,932
Government securities	6	983,362	878,691
Due from other banks and financial institutions	7	260,030	412,450
Investment in other securities	8	2,273	2,279
Loans and advances to customers	9	1,241,003	744,617
Investment in subsidiary	10	511	528
Other assets	11	23,122	23,052
Taxation	12	5,606	27,391
Property, plant and equipment	13	117,442	104,226
TOTAL ASSETS		2,914,526	2,439,166
LIABILITIES			
Customer deposits	14	1,787,250	1,579,923
Due to banks and other financial institutions	15	446,205	241,931
Other liabilities	16	278,340	243,313
Deferred taxation	12	5,573	5,573
TOTAL LIABILITIES		2,517,368	2,070,740
SHAREHOLDERS' FUNDS			
Stated capital	17	70,000	6,735
Share deals account	18	29,438	29,438
Capital surplus	19	16,538	16,538
Income surplus account		188,709	234,849
Statutory reserve	20	92,473	80,866
TOTAL SHAREHOLDERS' FUNDS		397,158	368,426
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		2,914,526	2,439,166
Net assets per share (Cedis per share)	34	2,787	2,585

Signed on behalf of the Board on 15 February 2006 by:

....
CHAIRMAN   MANAGING DIRECTOR

The attached notes 1 to 36 form an integral part of these financial statements.

Figure 6. SG Financial Statement for 2004 and 2005.

In millions of euros at December 31	2004	2003
Net interest income from:	mill 000'00	mill 000'00
Transactions with banks (Note 24)	(784)	(1,316)*
Transactions with customers (Note 25)	4,437	4,374
Bonds and other debt securities	1,127	1,064*
Other interest and similar revenues	(291)	295
Net income from lease financing and similar agreements (Note 26)	1,672	1,488
Sub-total	6,161	5,905
Dividend income (Note 27)	396	582
Dividends paid on preferred shares (Note 1)	(144)	(120)
Net interest and similar income	6,413	6,367
Net fee income (Note 28)	5,269	5,084
Net income from financial transactions (Note 29)	4,217	3,710*
Other net operating income	517	476
Gross margin of insurance business (Note 30)	103	45
Net income from other activities (Note 31)	102	284
Net banking income	16,416	15,637
Personnel expenses (Note 32)	(6,603)	(6,323)
Other operating expenses	(3,702)	(3,580)
Depreciation and amortization	(662)	(665)
Total operating expenses	(10,967)	(10,568)
Gross operating income	5,449	5,069
Cost of risk (Note 33)	(541)	(1,226)
Operating income	4,908	3,843
Net income from companies accounted for by the equity method (Note 34)	42	43
Net income from long-term investments (Note 35)	119	397
Earnings before exceptional items and tax	5,069	4,283
Exceptional items (Note 36)	(48)	(46)
Income tax (Note 37)	(1,398)	(1,161)
Amortization of goodwill	(186)	(217)
Allocation to reversal from the general reserve for banking risks	28	(104)
Net income before minority interests	3,465	2,755
Minority interests	(340)	(263)
Net income	3,125	2,492
Earnings per share	745	657

Figure 7. SG Financial Statement for 2003 and 2004.

Assets

In millions of euros at December 31	2004	2003
Cash, due from central banks and post office accounts	5,206	6,755
Due from banks (Note 3)	66,114	60,282
Customer loans (Note 4)	209,839	193,547
Lease financing and similar agreements (Note 5)	20,636	17,886*
Treasury notes and similar securities (Note 6)	41,082	30,610
Bonds and other debt securities (Note 6)	74,839	67,772
Shares and other equity securities (Note 6)	47,845	46,864
Treasury stock (short-term investment portfolio) (Note 6)	113	163
Investments of insurance companies (Note 7)	48,954	42,884
Investments in non consolidated subsidiaries and affiliates		
and other long-term equity investments (Note 8)	4,660	5,274
Investments in subsidiaries and affiliates accounted for by the equity method	343	554
Tangible and intangible fixed assets (Note 9)	8,709	8,098*
Goodwill (Note 10)	2,106	2,150
Accruals, other accounts receivable and other assets (Note 11)	70,643	56,548
Total	601,089	539,387

Figure 8. SG Assets for 2004 and 2003.

Liabilities and shareholders' equity

In millions of euros at December 31	2004	2003
Due to central banks and post office accounts	1,505	2,827
Due to banks (Note 12)	92,361	83,608
Customer deposits (Note 13)	213,433	196,090
Securitized debt payables (Note 14)	97,730	82,917
Underwriting reserves of insurance companies (Note 15)	46,828	41,164
Accruals, other accounts payable and other liabilities (Note 16)	111,246	97,726
Negative goodwill	–	1
Provisions for general risks and commitments (Note 17)	3,042	2,849
Subordinated debt (Note 18)	11,930	10,945
General reserve for banking risks	284	312
Preferred shares	2,049	2,120
Minority interests	2,105	1,951
Shareholders' equity		
Common stock	556	548
Additional paid-in capital	4,550	4,200
Treasury stock	(1,878)	(1,139)
Retained earnings	12,223	10,776
Net income	3,125	2,492
Sub-total	**18,576**	**16,877**
Total	**601,089**	**539,387**

Figure 9. SG Liabilities and Shareholders Equity for 2004 and 2003.

BALANCE SHEET
As at 31 December, 2007

Assets	Note	2007 GH¢'000	2007 GH¢'000
Cash			
Due from other banks and		173	113
financial institutions		3,705	2,864
Loans and advances	7	52,805	46,448
Other assets	9	8,401	1,994
Intercompany Accounts		3,241	1,737
Taxation	6	76	-
		68,401	53,156
Non current assets			
Investments		51	68
lease property	10	3,093	-
Property, plant and equipment	11	3,256	2,092
Total assets		**74,801**	**55,316**
Shareholders' fund and liabilities			
Shareholders' fund			
Stated capital	13	1,000	1,000
Statutory reserve	14	1,588	929
Income surplus		5,376	3,564
Total Shareholders' fund		**7,964**	**5,493**
Liabilities			
Borrowings		55,829	44,826
Interest payable and other liabilities	12	9,078	4,803
Due to other banks and financial institutions		1,930	-
Taxation	6	-	194
Total liabilities		**66,837**	**49,823**
Total liabilities and shareholders' funds		**74,801**	**55,316**

The Board of Directors approved the financial statements set on pages 25 to 35 on 19 March 2008

Director   Director

Figure 10. SG Financial Statements for 2007.

PROFIT AND LOSS ACCOUNT
For the period ended 31 December, 2007

	Note	2007 Ghȼ'000	2006 Ghȼ'000
Interest income	2	28,731	24,463
Interest expenses	3	(8,687)	(8,605)
Net interest income		**20,044**	**15,858**
Fee and commission income		601	712
Other operating income	4	2,040	1,090
Operating income		**22,685**	**17,660**
Charge for bad and doubtful debts	8	(7,520)	(5,708)
Operating expenses	5	(9,102)	(7,945)
Profit before tax		**6,063**	**4,007**
Tax	6	(1,592)	(1,424)
Profit after tax transferred to Income Surplus Account		**4,471**	**2,583**

INCOME SURPLUS ACCOUNT
For the period ended 31 December, 2007

	2007 GHȼ'000	2006 Ghȼ'000
At 1 January	3,564	1,768
Transfer from profit and loss account	4,471	2,584
Proposed Dividend	(2,000)	(400)
Transfer to Statutory Reserve	(659)	(388)
At 31 December	**5,376**	**3,564**
Earning per share	0.01	0.01
Dividend per share	0.01	0.01

Figure 11. SG Profit and Loss and Income Surplus for 2006 and 2007.

BALANCE SHEET
As at 31 December 2008

	Note	2008 GHȼ'000	2007 GHȼ'000
Assets			
Cash	17	213	173
Due from other Banks and Financial Institutions		10,395	3,705
Loans and Advances	18	98,116	57,191
Other Assets	21	9,841	8,401
Taxation	15	-	76
		118,565	69,546
Non current assets			
Medium-term Investments in other securities		61	51
Property and equipment	19	4,504	3,050
Lease property		4,593	3,093
Intangible assets	20	100	206
Total Assets		**127,823**	**75,946**
Equity			
Stated capital	26(ii)	4,000	1,000
Income Surplus	26(ii)	9,876	7,371
Statutory Reserve Fund	26(v)	2,383	1,588
Other Reserves	26(v)	619	1,145
Total Shareholders' Fund		**16,878**	**11,104**

Figure 12. SG Financial Statements for 2007 and 2008.

		2008 GH¢'000	2007 GH¢'000
Current Liabilities			
Borrowing	24	95,747	55,829
Intersest Payable and other Liabilities	23	7,520	6,677
Due to other Banks and Financial Institutions		6,253	1,930
Deferred income	25	980	309
Tax	15	40	-
		110,540	64,745
Non Current liabilities			
Deferred Tax	17	405	97
Total Liabilities		110,945	64,842
Total Liabilities and Shareholder's Equity		127,823	75,946
Net Assets Value per Share (Ghana Cedis per share)	30(i)	0.08	0.01

These financial statements were approved by the Board of Directors on March 5, **2008** and signed on its behalf by:

Director

Director

Figure 13. SG Liabilities and Shareholders' Equity for 2007 and 2008.

INCOME STATEMENT
For the year ended 31 December 2008

	Note	2008 GH¢'000	2007 GH¢'000
Interest Income	7	43,568	37,237
Interest Expense	8	(14,803)	(8,687)
Net Interest Income		28,765	28,550
Net Fees and Commissions Income	9	416	151
Other Operating Income	10	4,604	2,106
Operating Income		33,785	30,807
Operating Expenses	11	(14,074)	(9,102)
Impairment loss and bad debt	13	(12,161)	(15,795)
Profit before taxation		7,550	5,910
Taxation	16(i)	(2,250)	(1,538)
Profit for the Year		5,300	4,372
Basic earnings per share (Ghana Cedi per share)	30(ii)	GH¢0.03	GH¢0.001
Diluted earnings per share (Ghana Cedi per share)	30(ii)	GH¢0.03	GH¢0.001

Figure 14. SG Income Statement for 2007 and 2008.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Notes	Dec 2010 GH¢'000	Dec 2009 GH¢'000
Assets			
Cash and balances with Bank of Ghana	16	39,739	397
Due from other Banks and financial institutions	17	43,325	39,490
Loans and advances (Net)	18	315,297	138,281
Other assets	21	47,553	22,943
Tax assets	14	1,134	-
Investment securities	22	35,980	61
Goodwill	28	11,388	-
Property, plant and equipment	19	18,043	6,921
Lease property		2,864	3,786
Intangible assets	20	1,309	42
Total assets		516,632	211,921
Current Liabilities			
Customer deposit and current account	24	377,286	165,275
Interest payable and other liabilities	23	56,096	23,226
Due to other banks and financial institutions	25	22,213	-
Defined benefit obligation	27	289	-
Deferred income	26	830	1,015
Tax	14	-	59
Total current liabilities		456,714	189,575

Figure 15. SG Statement of Financial Position for 2009 and 2010.

UT BANK LIMITED
(Formerly UT Financial Services Limited)

	Notes	Dec 2010 GH¢'000	Dec 2009 GH¢'000
Long term liabilities			
Deferred tax	15	126	67
Term debt	29	8,706	-
		8,832	67
Total liabilities		465,546	189,642
Shareholder's Funds			
Stated capital	30(i)	30,000	4,000
Retained earnings	30(i)	11,275	13,478
Statutory reserve fund	30(i)	8,464	3,511
Credit risk reserves	30(i)	1,348	1,290
Total shareholders' fund		51,086	23,279
Total liabilities shareholders' fund		516,632	211,921
Net assets value per share	30(i)	0.17	0.11

These financial statements were approved by the Board of Directors and signed on its behalf by:

Director
3rd March 2011

Director
3rd March 2011

Figure 16. UT Total Liabilities Shareholders Fund for 2009 and 2010.

STATEMENT OF COMPREHENSIVE INCOME

For the year ending 31 December 2010

	Notes	Dec 2010 GH¢'000	Dec 2009 GH¢'000
Interest Income	6	74,706	67,612
Interest Expense	7	(40,429)	(36,738)
Net Interest Income		34,277	30,874
Net fees and commissions income	8	4,561	1,187
Other operating income	9	6,855	3,213
Operating income		45,693	35,274
Operating expenses	10	(26,530)	(16,996)
Impairment loss and bad debt	12	(7,003)	(8,573)
Profit before taxation		12,160	9,705
Taxation	14(i)	(2,255)	(2,184)
Profit for the year		9,905	7,521
Basic earning per share	30(ii)	0.03	0.04
Diluted earnings per share	30(ii)	0.03	0.04

Figure 17. UT Statement of Comprehensive Income for 2009 and 2010.

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