The Impact of Mergers and Acquisition on the financial performance of West African Banks: A case study of some selected commercial banks.

NABA Boukari Moctar, CHEN Xiaofang
School of Management, Wuhan University of Technology, Wuhan, P. R. China, 430070
(Email: mocnaba@yahoo.fr, cxf2010611@163.com)

Corresponding Author: NABA Boukari Moctar mocnaba@yahoo.fr

Abstract

This study was carried out to examine the impact of mergers and acquisitions (M&A) on the performance of West African Banks. The study is conducted across the Economic community of West African States (ECOWAS) which is the most popular regional economic community in Africa. To achieve the objective of the study, investigations were conducted to determine banks that have experienced M&A in ECOWAS region. Data was collected from banks annual reviews. Three groups of variables were used in this study: liquidity ratio, performance ratios (ROA and ROE) and investment valuation variables (earnings per share,). Two groups of banks have been used as case study: the first group consists of Access bank plc Nigeria and SG-SSB Ghana two banks that have experienced M&A and the second group consists of Zenith bank plc Nigeria and BOA Niger that have not experienced M&A.

The study first compares the situation of the first group before and after the mergers and also analyzes the two groups in terms of liquidity, performance and investment valuation using financial ratios.

The study reveals that in terms of liquidity, M&A improves the situation of the banks in short and long term. It also reveals that performance and investment variables decrease in the period of M&A and increase two or three years later. This means that in West Africa, M&A have significant short and long term positive effects on the liquidity of banks, while a negative effect in short term and a positive effect in long term on the performance and investment valuation variables were found.

Keywords: M&A, ECOWAS, performance, liquidity, investment valuation.

1. Introduction

According to Buch and DeLong (2001), banking merger and acquisition is one of the features of globalization and may be the driving force for non-competitive banks. In Europe, financial markets deregulation, technological development and the creation of the European monetary Union (European single currency) created the common platform for bank competition which led to expansion. The expansions took the form of M&As. According to Eurostat (1999) as a result of bank M&As in Europe, banks in individual countries within the Union have reduced in number. In Germany banking and credit services institutions fell from 4,739 in 1985 to 3,403 in 1998. In France during the same period were 1,952 in 1985 to 1,209 in 1998 and fell from 655 to 527 in the UK at the same period. The Economic Community of West African States (ECOWAS) which was created on 28 May 1975 in order to promote co- o p e r a t ion and integration of West African countries currently comprises fifteen (15) Member States also should lead to a monetary Union (Single currency) and create a similar platform for banks than the European Union. The mission of ECOWAS is to promote co-operation and development in all spheres of economic activity through the removal of all forms of trade barriers and obstacles to the free movement of persons, goods and services, as well as the harmonizing of regional sector policies. The main objective is to establish a large West African common market and create a monetary union.

As mentioned above, M&A has become order of the day in the global business system in which West Africa is not in isolation. The fundamental objective of M&A is to provide strong company capability of meeting customer satisfaction, and also to reduce fierce competition and evolve into technological development that will enhance better performance and realization of substantial profits. West African firms like their counterparts in the world are not left behind in their quest to achieve excellence in their business performance. Several M&A exercises were done cutting across different industries with banking sector recording highest number of mergers. However, as noted in the literature it is not all mergers and acquisition exercises that yield better outcomes, sometimes, the end result happens to be failure due to some hidden problems that might not be detected earlier before the merger.

This study seeks to evaluate the impact of mergers and acquisition as strategic growth options in the West African banking sector. To achieve the purpose of this study, four banks: Access Bank Plc Nigeria and SG- SSB Ghana, that were involved in mergers respectively in 2003 and 2005; and in another hand Zenith Bank Plc and BOA Niger that have not experienced M&A, are used as case study.

2. Literature review

2.1. Definition of mergers and acquisitions

The terms merger and acquisition are often used interchangeably. However, there are some differences. A merger refers to the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). An acquisition, on the other hand, is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. Mergers and acquisitions differ from a consolidation, which is a business combination where two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate (Okonkwo, 2004). In the same vein, Gaughan (2007: 12) defines merger as ‘a combination of two or more corporations in which only one corporation survives’. He further stated that the acquiring company assumes the assets and liabilities of the merged firm. Okonkwo (2004) writes that a merger may be achieved through an acquisition, in this case, the shareholders of the acquired company are paid off and the acquirer becomes the owner of all or a substantial part of the assets of the acquired company. Also, Sudarsanam (2003: 2-3) stated that terms such as ‘merger’, ‘acquisition’, ‘buyout’ and ‘takeover’ are used interchangeably and are all part of the M&A parlance, but was quick to point out the differences when he described merger as the process whereby corporations come together to combine and share their resources to achieve common objectives with the shareholders of the merged firms still retaining part of their ownership and this may sometimes lead into a new entity being formed while acquisition resembles more of an arm’s-length deal, with one firm purchasing the assets or shares of the other and the shareholders of the acquired firm ceasing to be owners of the new firm. The views of Sudarsanam conforms with those of Okonkwo (2004: 2), who maintained that the major difference between a merger and acquisition is essentially what the fate of shareholders becomes: ‘shareholders of acquired firms are paid off in the case of acquisition; there is no disinvestment of the shareholders of the amalgamating companies in the case of merger’. From the above distinction, it is apparent 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.

2.2.Effects of merger and acquisitions on banks performance in West Africa

In Africa, few studies have been conducted to test whether M&A results in successful improvement of banks’ profitability and efficiency. A wide range of performance indicators have been applied in these studies, ranging from simple Balance Sheet and Profit and Loss 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 M&A and organic growth resulted in a remarkable improvement on the sector as a whole (Ekundayo, 2008; Soludo, 2006; Soludo, 2008: 15). The Balance Sheet size and Profit and Loss profile of most banks in Nigerian have more than doubled since December 2005 to date. In 2006, Gatsi and Agbenu found that the performance of SG-SSB LTD has improved after its acquisition in Ghana.

3. Methodology

3.1. Research approach

The study uses variables to analyze the situations of the two banks involved in M&A in terms of liquidity, performance and investments valuation. Then it compares the performance of these banks with two other banks that are not involved in M&A to see wither the changes in their performances are due to other factors or only due to the M&A, and also to compare their situation with the other banks in terms of performance.

3.2. Case studies selection criteria

One of the critical decisions to make in a research of this nature is the determination of the right case study. Time and availability of data are important considerations in the determination of the case study.

In this study, four banks are selected as case studies: two banks from Nigeria, One from Ghana and one from Niger. Two Nigerian banks have been selected because Nigeria has the biggest economy in ECOWAS and because it's the country that has the biggest number of banks that have experienced M&A. Access Bank Plc and Zenith Bank Plc were selected based on their different recapitalization strategies and performance over the years. The two banks are relatively of the same age since they were incorporated almost the same time, February 1989 and May 1990 respectively. Also, both banks commenced operation as commercial banks before the advent of universal (retail and wholesale) banking in Nigeria.

The two other banks are SG-SSB Ghana and BOA Niger. SG-SSB Ghana has been selected because it has experienced M&A and has the same characteristics as many banks in British West Africa. BAO Niger has been selected because BAO is represented in all French West African countries.

3.3. Data collection and analysis procedure

The study relies on:

The data analysis procedure in this study involved the use of numerical data from the banks' published accounts from 2003 to 2012

3.4. Variables for the analysis

Many variables are used such as liquidity ratios, performance variables and investment valuation ratios.

- Liquidity ratio: current ratio and deposit growth rate are used in this study.

  Liquidity ratios attempt to measure a company's capability to meet its short-term debt obligations. This is done by comparing most liquid assets to short-term liabilities.

This study used current ratio with the formula: Current ratio = Current Assets/Current liabilities.

- Performance variables: ROA and ROE are used as performance variables.

  ROA: Return on Asset

  This ratio shows how profitable a company is relative to its total assets (Mishkin).Its shows how efficient management is at using its assets to generate. The higher the return, the more efficient management is in utilizing its asset base. The ROA ratio is calculated by comparing net income to average total assets, and is expressed as a percentage.

  ROA = Net profit after taxes / Total Assets.

  ROE: Return on equity

Return on equity (ROE) ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity (Mishkin, 2006: 232). The ratio measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to shareholders.

ROE = Net profit after taxes/Average shareholders' equity

- Investment valuation variables: Earnings per share (EPS).

4. Results

4.1. Result1 Liquidity

Table1: Access Bank's Current ratio and deposit growth rate from 2003 to 2012.

Figure 1: Access Bank's Current ratio and deposit growth rate from 2003 to 2012.

The figure shows an increase in the current ratio after the merger. The increase goes from 48.5% in 2006 just after the merger to 96.55% in 2009. This shows that the merger has improved the liquidity of Access bank. But this also shows that the bank could give more loans to its clients

Table2: SG-BSS Current ratio from 2003 to 2012.

Figure 2 SG-BSS Current ratios from 2003 to 2012.

The figure shows a very good level of current ratios.

1.1. Result2 Performance

Table3: Access ROA and ROE from 2003 to 2012

Figure 3: Access ROA and ROE from 2003 to 2012

The figure shows a decrease in the ROA and ROE in the period around the merger (2005-2006) after that period, ROA and ROE increase.

Table 4: SG-BSS ROA and ROE from 2003 to 2012

Figure4: SG-BSS ROA and ROE from 2003 to 2012

The figure shows a little decrease of ROA and ROE after the merger then they increase.

Table 5: ROA of the four banks

Figure 5 ROA of the four banks

ROA is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. This figure shows that the ROA of SG-BSS has decreased 2 years after the merger (2005). It has decreased in the year of merger for Access (2005). But two years after the merger, the ROA increases from 0.75 in 2003 to 3.39 in 2009.

This figure also shows that the two banks that have experience merger have good ROA performances compare to the two others. It also shows a little decrease in terms of ROA for all the banks in 2009 and 2010 surely due to the international financial crisis.

1.1. Result3: investment valuation

Figure 6: ACCESS earning per share from 2003 to 2012.

The analysis of the earnings per share shows that after the merger, Access bank shares owners earned much more money than before.

Conclusions and recommendations

According to the results of the analysis, the following conclusions can be drawn:

About the liquidity: The analysis of the current ratio of Access bank before and after the merger has shown that the liquidity ratio has increased after the merger. This shows that the merger has improved the situation of the bank in terms of liquidity.

The analysis of the current ratios of the 4 banks after the merger of Access and SG-BSS has also shown that the banks that experienced M&A have the highest current ratios. This also shows the positive effect of M&A on the liquidity of the banks.

About the performance: The analysis of the ROA of Access Plc Nigeria before and after the merger has shown that in the period of the merger, the ROA decreased but increased after and became even higher than its initial level. The conclusion that can be drawn is that in the short term, the merger has a negative effect on the ROA but it has a positive effect on the ROA in the long term.

The analysis of the ROE shows that the merger has the same effect on ROE than the effect it has on ROA.

About the investment valuation: The analysis of the EPS of Access bank plc before and after the merger shows that the merger has a negative effect when short term and a positive effect when long term.

To conclude, below are some recommendations that can be addressed first to the ECOWAS commission and member states then to the banks.

This study and many other studies have concluded on a positive effect of M&A on banks performance in Africa. In West Africa, Nigeria is the country where a big number of merger and acquisition have been conducted. This has been possible because of Central Bank of Nigeria's policy to increase the minimum paid-up share capital requirement of Nigerian banks from N2 billion to N25 billion in July2004, with December 31, 2005 as deadline, more than half of the 89 banks in Nigeria as at July 2004 were engaged in one form of merger and acquisition, some sourced for additional capital through public offering of their share, and others a combination of merger and acquisition and public offering. The Central Bank of Nigeria's policy to increase the paid-up share capital was to amongst other things to strengthen the financial capacity and effectiveness of the Nigerian banking sector. This policy has now a positive effect on the Nigerian Banking sector. For that reason, I recommend to ECOWAS commission and member states:

- To increase the minimum paid-up share Capital like in Nigeria in order to have some mega banks in the ECOWAS region so that the banking industry will be developed.
- To make an effective monetary Union of ECOWAS as soon as possible in order to facilitate transaction among ECOWAS and avoid currency fluctuation problems.

The recommendation addressed to banks managers is to try their best an allow banks to be quoted in Stocks exchanges. Especially in UEMOA region, many banks are not quoted in BRVM.

References

Access Bank. Annual report 2003 to 2012. [M] [Online]. Available at: http://www.accessbankplc.com/downloads/Financials. (2010)

Buch, C. M and Delong, G (2002)"Cross-Border Bank Mergers: What Lures the rare Animal"? *Kiel Institute of World Economics, Working Paper 1070, Kiel.*

BOA Niger . Annual report 2003 to 2012 at www.boaniger.com /downloads/Financials.

Eurostat (1999) Annual national accounts

Gaughan, P.A.,. Mergers, Acquisitions, and Corporate Restructurings. 4th ed. New Jersey: John Wiley & Sons, Inc. (2007)

John Gartchie Gatsi & Dollar Agbenu *SG-SSB LTD: A case of Cross –Border Merger and Acquisition in Ghana (2006) Master thesis* Centre for Finance School of Business, Economics and LawGöteborg University

Okonkwo, C.O.'Legal framework for mergers and acquisitions'. Central Bank of Nigeria. [Online]. Available at: http://www.cenbank.org/OUT/PUBLICATIONS/BSD/2005/LEGAL%20FRAMEWORK%20FOR%20MERGERS%20%20ACQUISITIONS.PDF [accessed 3 June 2008]. (2004)

Soludo, C.,. 'Financial Sector reforms and the real economy'. Speech to the Council of Fellows of the Pharmaceutical Society of Nigeria. (2006)

Soludo, C. 'Beyond banking sector consolidation in Nigeria.' [Online]. Presentation at the Global Banking Conference on Nigerian Banking Reform. Available at: http://www.cenbank.org/out/Speeches/2006/Govadd29-3-06.pdf [accessed 17 June 2008]. (2006)

Sudarsanam, S.,. Creating value from Mergers and acquisitions: The challenges, Harlow, Pearson Education Limited. (2003)

Zenith Bank. Annual report 2003 to 2012 [Online]. Available at: http://zenithbank.com

SG- SSB. Annual report 2003 to 2012 www.sg-ssb.com.gh

Tables and Figures

Table1: Access Bank's Current ratio and deposit growth rate from 2003 to 2012.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current ratio Access	69.883	50.438	49.6305	48.802	52.5011	69.529	96.557	92.38	52.303	50.28
Deposit growth rate		144.11	43.4943	240.04	85.0974	71.408	15.313	19.49	127.29	9.057

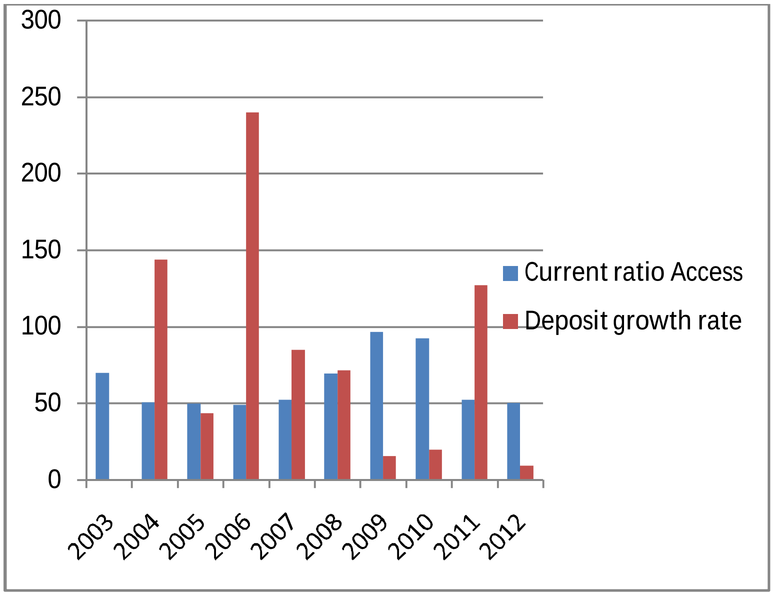

Figure 1: Access Bank's Current ratio and deposit growth rate from 2003 to 2012.

Table2: SG-BSS Current ratio from 2003 to 2012.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current ratio SG-BSS	95	97	69.436	59.83	75.94	96.072	76.22	60.305	55.05	60.541

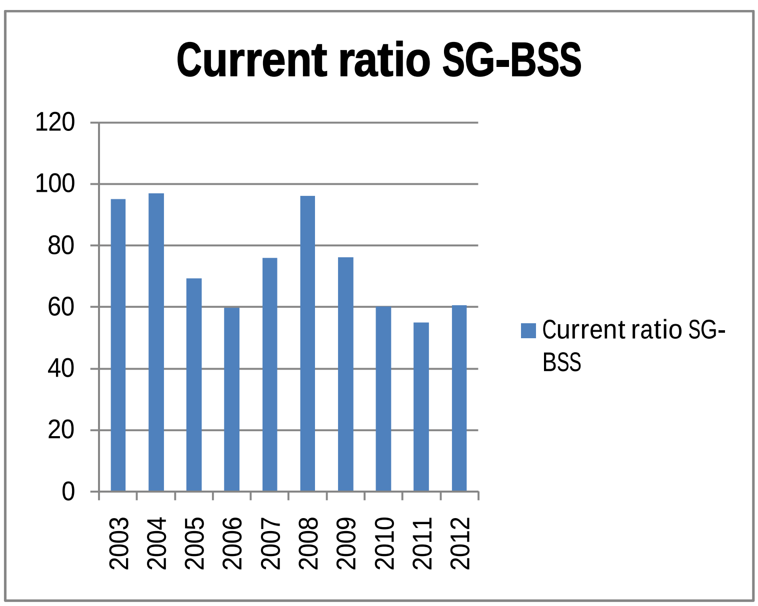

Figure 2 SG-BSS Current ratios from 2003 to 2012

Table3: Access ROA and ROE from 2003 to 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ROA access	2.4647	2.034	0.749	0.422	1.8512	1.5561	3.391	0.9704	0.944	2.2006
ROE access	23.534	21.228	3.564	2.551	21.433	9.335	12.38	4.6927	8.0068	15.936

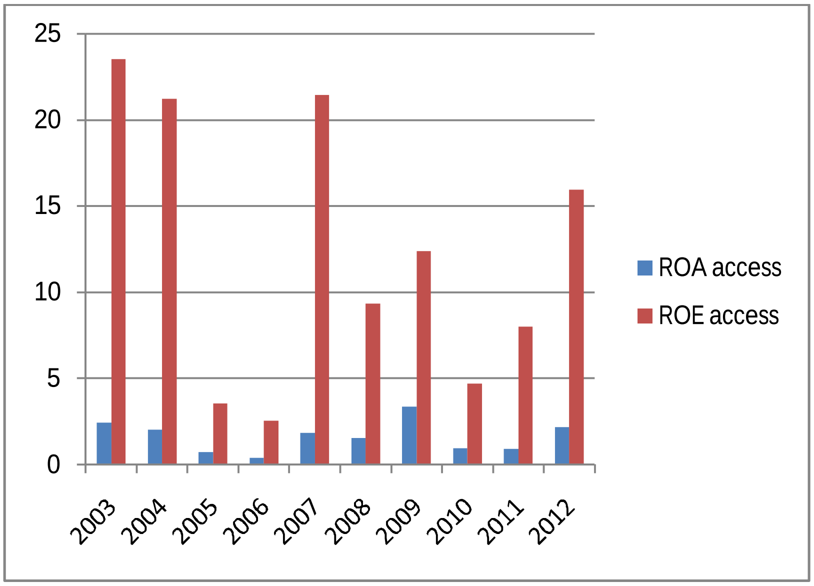

Figure 3: Access ROA and ROE from 2003 to 2012

Table 4: SG-BSS ROA and ROE from 2003 to 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ROA Sg-bss	4.6	4.7	3.186	2.721	2.773	3.554	3.345	2.82	2.72	2.779
ROE Sg-bss	26.9	28.8	23.38	19.56	19.84	22.28	17.78	16.7	15.2	17.82

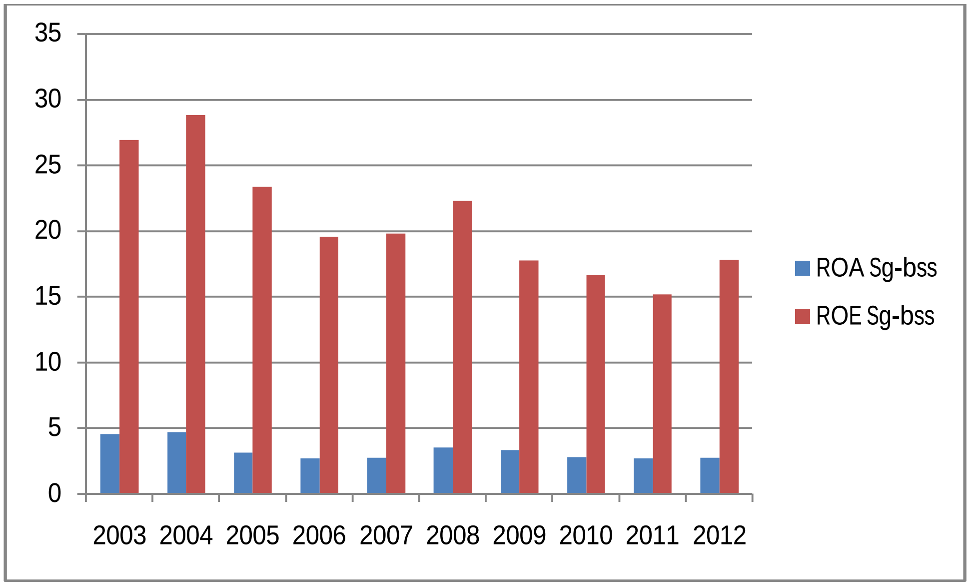

Figure4: SG-BSS ROA and ROE from 2003 to 2012

Table 5: ROA of the four banks

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ROA access	2.46	2.03	0.75	0.42	1.85	1.56	3.39	0.97	0.94	2.20
ROA Sg-bss	4.60	4.70	3.19	2.72	2.77	3.55	3.35	2.82	2.72	2.78
ROA Zenith	3.93	2.69	2.16	1.88	1.93	2.91	1.24	1.98	3.93	3.87
ROA boa		1.38	1.09	1.76	1.51	1.28	1.29	1.59	1.74	1.67

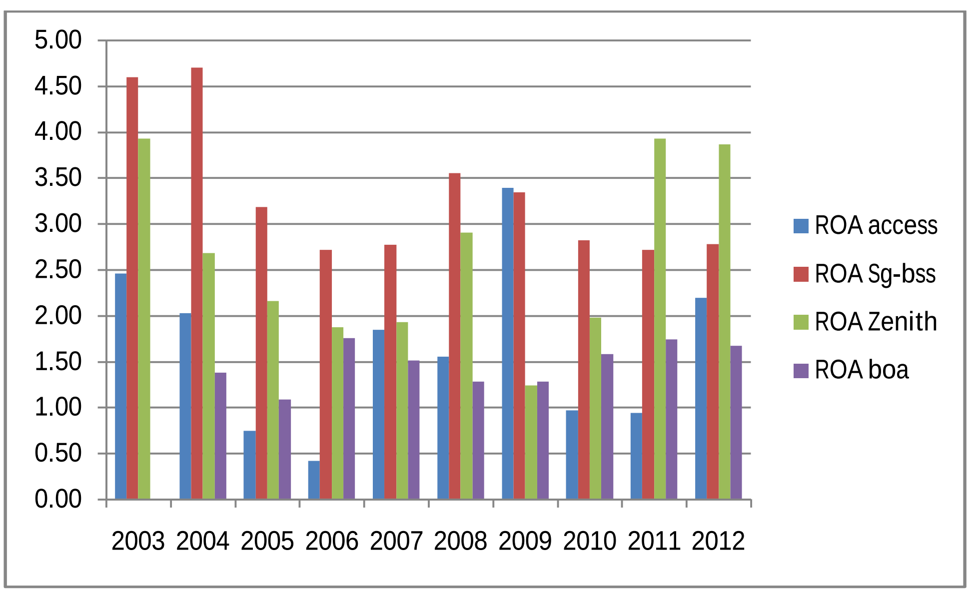

Figure 5 ROA of the four banks

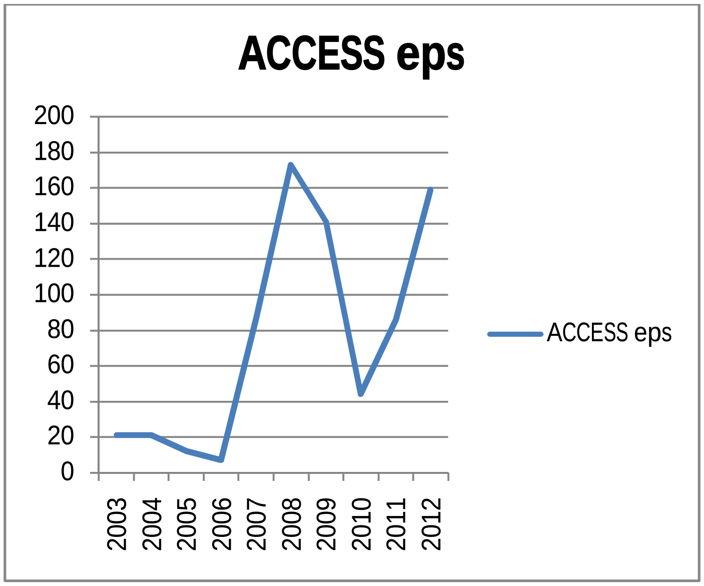

Figure 6: ACCESS earning per share from 2003 to 2012.