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ASSESSING THE IMPACT OF MERGERS AND ACQUISITIONS IN RURAL BANKING INDUSTRY IN GHANA: A CASE OF GOMOA COMMUNITY BANK LIMITED

BY

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Dissertation submitted to the Department of Accounting of the School of Business, College of Humanities and Legal studies, University of Cape Coast, in partial fulfillment of the requirements for the award of Master of Business Administration degree in Accounting

JUNE 2018

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature……………………………. Date…………………..

Name……………………………………………………………………….

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature:…………………………… Date:…………………

Name:………………………………………………………………………

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ABSTRACT

Merger is where two or more companies decide to combine their activities and to organize a common control of the assets. This study focused on investigating whether mergers are viable options for raising capital for banks to finance their operations, improve their performance and expand their capacity into new areas. The main objective of this study is to assess merger as a financing option to develop the Rural and Community Banking industry, with specific emphasis on the newly merged Gomoa Community Bank Ltd. The study took place among staff of the Gomoa Community Bank (a merger product of three Rural Banks within the Gomoa District in the Central Region of Ghana: Gomoa Rural Bank, Apam; Gomoa Ajumako Rural Bank; Afransi and Eastern Gomoa Assin Rural Bank; Gomoa Dominase). Seventy employees submitted their responses for analysis; 50 males and 20 females. The modal age range was 26-35 years. Majority of the employees were diploma and first-degree holders. 54.29% and 51.43% of respondents indicated that, there are no change in advances to Gross Advances and earning asset to total asset ratio respectively. However, 48.58% of the employee stated that the merger led to increase in paid up capital. The main challenges to the merger were fear of staff retrenchment, membership of the board and appointment of General Manager. Based on the responses received, it became evident that the quality of human resource at Gomoa Community Bank Ltd has improved. Recommendations: A holistic involvement of stakeholders through education. Gomoa Community Bank Ltd. is to put in place proper policies and strategies to ensure proper external, internal control and regulatory compliance in order to stay in business.

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KEY WORDS

Merger

Capital adequacy ratio

Earning asset to total asset ratio

Cost to income ratio

Advances to loanable funds ratio

Return on equity ratio

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DEDICATION

To my wife, Mrs Aneeta Sasah, and the entire Sasah family

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LIST OF ACRONYMS

ARB	Association of Rural Banks
C/IR	Cost to Income Ratio
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
GoCB	Gomoa Community Bank Ltd
ILO	International Labour Organization
M&A	Merger and Acquisition
MSLC	Middle School Leaving Certificate
OD	Overdraft

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CHAPTER ONE

INTRODUCTION

Background to the Study

This study takes a look at the Rural and Community Banking Sector in Ghana with a focus on assessing and exploring the legal and social framework regarding alternative sources of capital for Rural and Community Banks in Ghana. This study narrows its focus to investigating whether mergers and acquisition are viable options for raising capital for rural and community banks to finance their operations, improve their performance and expand their capacity into new areas where necessary.

Rural finance includes other instruments and institutions specially intended to finance rural activities, both farm and off-farm, the clients being served typically lack the characteristics required by Commercial Banks or are located beyond the reach of Commercial Bank branches (Steel & Andah, 2003). Since its inception, rural banks in Ghana have been beset by many managerial, financial and operational challenges. The most prominent of these problems are those relating to liquidity, loan recovery, low capitalization, connected lending, poor technology and lack of adequate communication facilities (Asiedu-Mante, 2011).

The interrelated nature of most of the problems singles out the raising of additional capital for injection into the companies as a dominant problem confronting most rural and community banks. As of December, 2014, 47 out of 141 Rural/ Community banks, did not meet the minimum capital requirement of GHC 300,000.00. Again, in assessing the liquidity and solvency (Regulatory Compliance) of rural/community banks by the ARB

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Apex bank, it was observed that 31 banks did not comply with the Capital Adequacy requirement, 31 banks defaulted in the primary reserve requirement, 62 banks did not also comply with the secondary reserve requirement, 6 banks were declared distressed (ARB Apex Bank Ltd, 2015).

Through financial intermediation, banks facilitate capital formation (investment) and promote economic growth. The decade 1995 and 2005 were particularly traumatic for the Nigerian banking industry, with the magnitude of distress reaching an unprecedented level, thereby making it an issue of concern not only to the regulatory institutions but also to the policy analysts and the general public. Thus, the need for a drastic overhaul of the industry was quite apparent.

In furtherance of this general overhaul of the financial system, the Central Bank of Nigeria introduced major reform programmes that changed the banking landscape of the country in 2004. The main thrust of the 13-point reform agenda was the prescription of minimum shareholders' funds of 25 billion for Nigerian Deposit money bank not later than December 31, 2005. In view of the low financial base of these banks, they were encouraged to merge. Out of the 89 banks that were in operation before the reform, more than 80 percent (75 banks) merged into 25 banks while 14 that could not finalize their consolidation before the expiration of the deadline were liquidated (Adebayo & Olalekan, 2012).

Mergers are driven by a complex set of motives and no single reason may offer full explanation. Following Brealey and Myers (2000), the reasons for mergers may be categorized into those that enhance shareholder value (sensible reasons) and those that do not (dubious reasons). Shareholder value

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may be enhanced through expansion of operations leading to increased market share and cost savings through economies of scale or by cross selling of products and utilizing complementary resources i.e. economies of scope or synergy. The substantial portion of extant empirical literature both on scale economies and shareholder's wealth is not in favor of mergers. However, in the context of India and for other Asian economies large size banks are desirable to meet several current and forthcoming challenges of the economy.

According to Adebayo and Olalekan (2012), consolidation is based on a belief that gains accrue through expenses reduction, increased market power, reduced earnings volatility, and scale and scope economies. However, the characteristics of the kind of reforms induced mergers and acquisitions of the banking industry create doubts of its potentials of realizing efficiency gains. A deeper look at the 25 banks that emerged after the consolidation shows that most banks that were regarded as distressed and unsound regrouped under new names or fused into existing perceived strong banks not necessarily to correct the inefficiency in their operating system but just to meet the mandatory requirement to remain afloat and to continue business as usual.

Mergers and Acquisition are not new, for instance, between 1993 and 1996 about 1500 mergers were recorded in the U.S.A. (Pilloff, 1996), a similar experience was observed in the Europe and Asian continents (Schenk, 2000). Some studies have analyzed bank M&A in Europe especially after the consolidation of the European economies and the unification of their currency (Lindblom & Von Koch, 2002; Yener & Ibáñez, 2004). Hitherto, it has been quite rare to find research into bank M&A in the developing countries of Africa such as Ghana because such expansion activities were non-existent

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until the early part of 1990s. This delay in expansion activities may be greatly blamed on the protective regulations in these areas which have inhibited growth of the banking sector and also due to large public-sector interference.

Nonetheless, considering the rate of changes going on due to governmental reforms in Ghana and the world alike, the nature of competition seems to be changing from what it used to be. The entry of foreign and local investors into different sectors of the economy especially the service and financial industries has given rise to intense competition and indeed a face-lift of the sector.

This signaled the need for firms to look internally into their operational procedures and change strategically to meet up with the challenges to gain competitive edge. Associated with every M&A is the concept of synergetic strengths and value creation to enhance the competiveness of the firm's target in the sector. The growing tendency towards M&As world-wide, has been driven by intensifying competition.

There is a need to reduce costs, reach global size, take benefit of economies of scale, increase investment in technology for strategic gains, desire to expand business into new areas and improve shareholder value. In addition, M&A is done with great expectations of growth; nevertheless, it does not always become fruitful due to issues such as compatibility of acquirers' organizational cultures and fitness of strategies in context of the target company.

Statement of the Problem

With an upward revision of the stated capital for Rural and Community Banks in 2009 to GH₵ 150,000 by the Bank of Ghana, most Rural and

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Community Banks are faced with a new challenge of raising additional capital from investors in their various localities. This requirement appears to be getting tougher with directive from the Bank of Ghana asking Rural and Community banks to raise their capitals to GHC 300,000 by December 2015, GHC500, 000.00 by December 2016 and 1,000,000 by December 2017. As of December, 2014, 47 out of 141 Rural/ Community banks did not meet the minimum capital requirement of GHC 300,000.00. Again, in assessing the liquidity and solvency (Regulatory Compliance) of rural/community banks by the ARB Apex bank, it was observed that 31 banks did not comply with the Capital Adequacy requirement, 31 banks defaulted in the primary reserve requirement, 62 banks did not also comply with the secondary reserve requirement, 6 banks were declared distressed. Banks which fail to meet the required capital stand the risk of been liquidated.

Mr. Eric Osei-Bonsu, Managing Director of ARB Apex Bank Limited mentions the financial plight that befalls most rural banks and advocates for the merger of Rural and Community Banks (Ghana News Agency, 2008). He mentions that the operational cost of Rural and Community banks is going to increase due to maintenance of ICT infrastructure after the computerization and networking of Rural and Community Banks take effect under the Rural Financial Services Project. The scale of operations and financial capabilities do not allow most Rural and Community Banks to plough back profit while low income levels in the rural areas inhibit deposits. With lower capital levels, the loan size of most rural banks is small, they are unable to attract and retain quality human capital and the development of rural areas is undermined.

The banking industry in Ghana has seen a great deal of competition

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with the influx of foreign banks into the country. Most rural banks are unable to compete favorably due to such problems as under financing, low literacy levels in rural areas and operational inefficiencies, most rural banks are unable to compete and their profitability is heavily affected. Although most of these rural banks are heavily underfinanced, institutional, regulatory and social barriers inhibit alternative sources of raising capital through public offering, mergers and acquisition, private equity buy-out among others.

For example, most rural banks do not have a proper shareholders' register while the conservative naming of rural banks after their localities inhibit amalgamation attempts. The situation is further compounded by the clustering of certain rural banks in one locality, usually with small operating capital and unavoidable competition. In essence, the problem of raising additional capital to finance the operations of most rural banks has been a hindrance to their operational success and a stumbling block to rural bank expansion. Mergers and acquisition have the potential to increase efficiency and profitability in the sector through the benefits of synergy, the transfer of efficient managerial and operational practices, an increased capital base and the expansion of product lines (Coyle, 2000; Pilloff & Santomero, 1996).

Purpose of the Study

The main purpose of this study was to assess mergers as a financing option to develop the Rural and Community Banking industry, with specific emphasis on the newly merged Gomoa Community Bank Ltd.

Research Objectives

1. Determine the benefits rural banks derive from mergers and acquisitions especially quality of human capital.

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2. Identify the problems rural banks encounter during mergers and acquisitions and
3. Explore ways in resolving some of the challenges associated with mergers and acquisitions.

Research Questions

1. What are the benefits rural banks derive from mergers and acquisitions?
2. What problems do rural banks encounter during the process of mergers and acquisitions?
3. What are some of the ways in resolving some of the challenges associated with mergers and acquisitions?

Significance of the Study

The importance of this study cannot be overemphasized, this includes: Firstly, since mergers and acquisition is often not accepted by many shareholders in the rural banking industry, this research exposes the problems that banks go through in the merger and acquisition processes. This information could be useful for other banks intending to go into merger and acquisition in the future, the Bank of Ghana and ARB Apex Bank Limited.

Secondly, this research may also provide information that will enable the Association of Rural Banks and interested stakeholders build stronger rural banks by expanding their capital base through mergers and acquisitions. It will also address most of the issues relating to rural banks seeking to raise additional capital to expand its operations and thirdly, the study also enable rural banks raise more equity capital through mergers and acquisition while fostering performance and profitability.

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Limitations of the Study

This research largely describes and evaluates the current trends in the banking sector with specific emphasis on mergers and acquisition as a financing option to develop the Rural and Community Banking industry. This research will also analyze and assess the challenges that confront merger and acquisition efforts. The study covers the operations of the erstwhile Gomoa, Eastern Gomoa Assin Dominase, and Gomoa Ajumako Rural Banks and the now merged Gomoa Community Bank. The study is limited to the operations of the banks in the Gomoa West, Gomoa East, Gomoa Central and Agona West Municipalities. The choice of the location is due to data availability.

The newly merged Gomoa Community Bank was chosen for this study. As much as it is desired to come out with conclusions which add to knowledge in the banking sector, the research is likely to face the limitations of the unwillingness of banks to give out honest and reliable information due to privacy policies of the bank may affect the validity of the results of the study.

Organisation of the Study

This study is organized in such a way as to give a systematic dissection of the research problem. The document is in five parts. Chapter One consists of the introduction. It covers the background of the study, statement of the research problem, research objectives, research questions and significance of the study, scope of the study, limitations and organization of the study.

Chapter Two is the literature review. This chapter considers the theoretical framework of the research. It also explores work that has been done in this area both outside and inside the country. It also covers some secondary information on mergers and acquisitions, the meaning of mergers and

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acquisitions, importance of mergers and acquisitions, types of mergers and acquisitions.

Chapter Three is the research methodology. It discusses the techniques of data collection and analysis methods. Chapter Four is the data analysis and discussion of findings. It discusses both the primary and secondary data collected from the selected banks. Chapter Five of the study will discuss the findings and recommendations for industry players and the framework for further studies into the area. This chapter will also include a summary conclusion of the important findings that explains the research problem.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

Banks are the linchpin of the economy of any country. They occupy central position in the country's financial system and are essential agents in the development process, by intermediating between the surplus and deficit savings units. Within an economy, banks mobilize and facilitate efficient allocation of National savings, thereby increasing the quantum of investments and hence national output (Afolabi, 2004).

Through financial intermediation, banks facilitate capital formation (investment) and promote economic growth. The decade 1995 and 2005 were particularly traumatic for the Nigerian banking industry, with the magnitude of distress reaching an unprecedented level, thereby making it an issue of concern not only to the regulatory institutions but also to the policy analysts and the general public. Thus, the need for a drastic overhaul of the industry was quite apparent.

Theoretical Review

Differential Efficiency Theory

Weston, Mitchell and Mulherin (2001) suggest that there are firms with below average efficiency or that are not operating up to their potential. Firms in similar kinds of business activity would most likely be the potential acquirers. They would have the background for detecting below average or less than full potential performance and have the management know-how for the improvement of the performance of the acquired firm. Therefore, this theory suggests that more efficient firms will acquire less efficient firms and

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realize gains by improving their efficiency.

Inefficient Management Theory

Mergers and acquisitions can also be viewed as a response to inefficient management. This scenario is seen where investors in a response to a situation where the incumbent management has pursued inefficient policies and consequently the firm becomes an acquisition target by other firms (Asquith, Bruner & Mullins, 1983). Sugiarto (2000) observes that inefficient management can be identified from several indicators for example poor earnings undervalued shares and low price earnings ratio. These indicators signify inefficient management and demonstrate that the resources in the target firms are not utilized efficiently which motivates the bidding firm to take over the target firm.

Hubris Theory

In acquisitions, the bidding firm identifies a potential target firm and values its assets. When the valuation turns below the market price (of the stock) then no offer is made. Only when the valuation exceeds the market value, a bid is made. Roll (1986) hypothesizes that managers commit errors of over-optimism in evaluating acquisition opportunities due to excessive pride or hubris. The author argues that a particular bidder may not learn from past mistakes in valuation of target firm and may be convinced that the valuation is correct. Therefore, the takeover phenomenon is as a result of hubris on the part of bidders, the overbearing presumption that their valuation is correct and can never be wrong. Nevertheless, this theory assumes a strong form of market efficiency.

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Conceptual Review

Meaning of Mergers and Acquisitions

Mergers and acquisitions are arguably the most popular and influential form of discretionary business investment (Witt & Meyer, 1998). Mergers and acquisitions are operations by which the control of the corporate capital changes hand. In the case of merger, two companies decide to combine their activities and to organize a common control of the assets. In the case of acquisition - friendly or hostile - one of the companies buys out the other (Sachwald, 1993).

Mergers and acquisitions coincide with a technological and economic upheaval, which brings to wonder about the interactions between waves of re-organization and waves of innovation. We could also consider that the mergers are the grouping of two entities or more, to become stronger together by merging their resources. Acquisitions is defined when a firm buy another one and get the total control of the new entity constituted often the two words 'mergers' and 'acquisition' are used to denote a consolidation of two or more companies into one entity.

Mergers can be defined as the joining or coming together of two or more companies into a bigger entity. Section 590 of the Nigerian Companies and Allied Matters Act 1990 defines merger as 'any amalgamation of the undertakings or any part of the undertakings or part of the undertakings of one or more companies and one or more bodies corporate' (Jimmy, 2008). Gaughan (2007) also defines mergers as 'a combination of two or more corporations in which only one corporation survives'. Mergers are much friendlier than acquisitions and may result in a complete change in name of the

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new, bigger entity. A classical merger example is the merger between Platinum Bank Limited and Habib Nigeria Bank Limited to form the Bank PHB Plc in 2004/2005.

Acquisitions on the other hand involve one company buying over all or a majority of the assets of another company. Acquisitions therefore put decision making authority into the hands of the acquiring company. Okonkwo (2004) explains that consolidation through acquisition means that the shareholders of the purchased firm are paid off, their ownership rights over assets are bought and they cease to be owners of the new entity. Acquisitions can result in two main outcomes: whether the acquired institutions are consolidated into one single institution or continue to operate as separate entities under new ownership (Pilloff & Santomero, 1996). The undertaking of mergers results in the sharing of assets wherein the shareholders of both joining companies still retain some level of ownership in the new. Acquisitions on the other hand result in a complete change or handing over in the ownership structure of the new entity.

Motives for Mergers and Acquisitions

There are several theories related to acquisition motives. Most of these theories are closely related to each other and give most of the time similar motives for acquisitions. Ojanen, Salmi and Torkkeli (2008) have classified the motives of M&A with the perspective of an acquirer company:

i. Expansion and development which involve geographic and/or product expansion, client following and redeployment of resources to or/and from target.
ii. Increase internal efficiency includes economies of scale.

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iii. Improved competitive environment encompasses increase market share and power, gain size to face global competition, defense mechanism, acquire a competitor, create a barrier to market entry, decrease industry overcapacity, and benefit from cost disparities (for instance, labour).

iv. Financial motives comprise diversify risk; invest in fast-growth markets, and turnaround of a failing target.

v. Personal motives include increased sales and asset growth, gain personal power and prestige, cashing in on short-term stock market reactions (incentive system).

vi. Others include benefit from exchange rate differentials, and bypass protective tariffs, quotas among others.

Obviously, mergers and acquisitions may be motivated by more than one of those motives. Those motives may also vary depending on the industry and the firm's objectives (Ojanen, Salmi & Torkkeli, 2008).

Other factors affecting mergers and acquisitions change with changing political, economic, socio-cultural, technological and legal environments (Kaushal, 1995). Business organization literature has identified two main reasons associated with mergers and acquisitions that is efficiency and strategic rationale (Neary, 2004). Efficiency gain means the merger will result into benefits in the form of economies of scale and scope. Economies of scale and scope are achieved due to the integration of the volumes and efficiency of both firms forming the combined entity. Next, strategic rationale is derived from the point that mergers and acquisitions activities would lead to change in the structure of the combined entity which would have an affirmative impact on the performance of the firm.

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Types of Mergers

There are four (4) types of mergers. They are horizontal, vertical, concentric and conglomerate mergers.

Horizontal Mergers

Horizontal mergers happen when a company merges or takes over another company that offers the same or similar product lines and services to the final consumers, which means that it is in the same industry and at the same stage of production. Companies, in this case, are usually direct competitors. For example, if a company producing cell phones merges with another company in the industry that produces cell phones, this would be termed as horizontal merger.

The benefit of this kind of merger is that it eliminates competition, which helps the company to increase its market share, revenues and profits. Moreover, it also offers economies of scale due to increase in size as average cost decline due to higher production volume. These kinds of merger also encourage cost efficiency, since redundant and wasteful activities are removed from the operations i.e. various administrative departments or departments such as advertising, purchasing and marketing.

Vertical Mergers

A vertical merger is done with an aim to combine two companies that are in the same value chain of producing the same good and service, but the only difference is the stage of production at which they are operating. For example, if a clothing store takes over a textile factory, this would be termed as vertical merger, since the industry is same, i.e. clothing, but the stage of production is different: one firm is works in territory sector, while the other

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works in secondary sector.

These kinds of mergers are usually undertaken to secure supply of essential goods, and avoid disruption in supply, since in the case of our example, the clothing store would be rest assured that clothes will be provided by the textile factory. It is also done to restrict supply to competitors, hence a greater market share, revenues and profits. Vertical mergers also offer cost saving and a higher margin of profit, since manufacturer's share is eliminated.

Concentric Mergers

Concentric mergers take place between firms that serve the same customers in a particular industry, but they don't offer the same products and services. Their products may be complements, product which go together, but technically not the same products. For example, if a company that produces DVDs mergers with a company that produces DVD players, this would be termed as concentric merger, and since DVD players and DVDs are complements products, which are usually purchased together. These are usually undertaken to facilitate consumers, since it would be easier to sell these products together. Also, this would help the company diversify, hence higher profits. Selling one of the products will also encourage the sale of the other, hence more revenues for the company if it manages to increase the sale of one of its product. This would enable business to offer one-stop shopping, and therefore, convenience for consumers.

The two companies in this case are associated in some way or the other. Usually they have the production process, business markets or the basic technology in common. It also includes extension of certain product lines. These kinds of mergers offer opportunities for businesses to venture into other

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areas of the industry reduce risk and provide access to resources and markets unavailable previously.

Conglomerate Merger

When two companies that operates in completely different industry, regardless of the stage of production, a merger between both companies is known as conglomerate merger. This is usually done to diversify into other industries, which helps reduce risks.

Merger and Acquisition Process

Considering different theories about the mergers and acquisitions process, a model had been proposed. However, merging companies do not all the time compulsorily go through all the stages of the process. The model is divided in three different major categories: Pre-merger process, during the merger activities and post-merger integration. Each of these stages can be subdivided again into two different steps. Hence the mergers and acquisitions process consist in six main steps (Paulsen & Huber, 2001).

Research and Decision

The pre-merger process is the timeframe before the announcement of the deal and involves a long process of decision-making. First of all, the decision for an acquisition must be made. This will be done normally by the Chief Executive Officer (CEO) of the company in collaboration with the top management team after thoroughly analyzing the opportunities available (Kusstatscher & Cooper, 2005). However, the game theory of Nash (1950) that is the mathematical study of strategies and decision-making, explains a merger in most of the cases creates a reaction of the other market players. Therefore, the top management and the consultancies must be aware of the reaction

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following the decision of mergers and acquisitions deal of the own company. Nevertheless, if the decision is considered as right, a long list of potential targets will be created in order to get an overview and more information on the companies fitting with the acquirer's strategy (Sudersanam, 2003).

Strategy

In this stage a first strategy concept and a business plan will be developed in order to reduce the number of potential candidates. Due to the same reason a first evaluation of financial and strategic fit will be done. Additionally, a strategy depending on the complexity of the acquisition, the strength as well as the ambitions of the target companies and their managers will be developed in this period. Nevertheless, beside the importance of the further strategy, the CEO and the negotiation team should be open- minded for new opportunities and also to be flexible to react to new problems occurring out of the negotiations with the potential targets (Sudersanam, 2003).

Merger and Acquisition Selection

In this stage, potential candidates have to be screened and a final group of maximal five target companies should be selected. This will be done through two main criteria in addition to a direct contact. The first criteria regards choosing the final target company depending on the forecasted benefits of an acquisition of the observed company that could be realized and the strategic matches in terms of products, markets geographical position. This stage consists mainly in bidding and negotiating between the acquiring and the target company. Therefore, confidential agreements are imperative (Kusstatscher & Cooper, 2005)

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Due Diligence

In the so-called due diligence process the financial shape and the potential strategic match of the target company will be checked more in details by a selected team of accountants, consultants and lawyers (Kusstatscher & Cooper, 2005). The biggest problem of the due diligence process is that the target company wants the acquiring company to feel comfortable with the postulated price and the quality offered but on the other hand the target company does not want to present all information about financial, marketing or sales aspects for fear of a late failure of the deal. This secret information is disclosed in the due diligence process, the introduction of an interim step, in which the acquiring company gets access to certain information about the target company, can be helpful. There is also the possibility of a non-disclosure agreement, which protect the secret needs of the involved company.

Nevertheless, not all information honestly is delivered every time. Bad surprises can occur later in the deal (Paulson & Huber, 2001). During the merger, it is crucial to find the right balance between emphases to speed and diligence in the decision-making process. The consequences of moving too slow as well as doing the wrong decisions mean losing a lot of money and reducing shareholder value.

Closing the Merger

The timeframe to close the merger may last few hours until a few weeks depending on the complexity of the deal and the accuracy of the work done. Final negotiations about the acquisition price and a binding letter of intent will be signed together with the closing contracts. Nevertheless, mistakes can be made during the final meeting, where the contracts are signed,

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which may cause delays in the closure or in the worst case the failure. Hence, according to Reed et al. (2007), there are several points to keep in mind for the closing meeting; all lawyers and other people involved in the deal, such as consultants, should be present all the time during the final meetings, in case of changes through last minute documents. All time constraints such as desk opening hours of involved banks for instance, must be taken into consideration and if necessary, in consultation with them, extended. Emphasis on speed should not influence the quality. Every single change made in the closing meeting, caused by late arrival documents or any other reason, must be thoroughly proved in all layers concerning the deal.

The Integration Process

Each of these six steps is very important and requires a maximum of concentration to succeed in merging two companies. Therefore, after closing the merger, the final goal is not reached yet, and the integration process must be treated with the highest possible amount of concentration and accuracy. Indeed, mistakes in the integration process of mergers and acquisitions are one of the main reasons of failures in acquisitions. Most time the post-merger integration process executes the plans that have been done before the integration stage. Consequently, there are different steps which are mainly planned before, but should be taken into consideration and also controlled to make the acquisition successful (Paulsen & Huber, 2001).

First of all, an integration plan has to be developed, including every step, starting at the day of signing the contracts. The plans must be already done until the final signatures will be given, otherwise there will be too much time wasted. It can be also helpful to have an integration manager. The task of

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the manager is to focus only on aspects concerning the integration of the different cultures, both national and corporate culture. He/she also has to evaluate the employees of both companies as objective and fair as possible. Therefore, he/she should not have been involved in one of the companies before, to maintain the credibility towards the workforce. Furthermore, the integration of manager must be involved in the all activities and information from the first day of the merger decision (Light, 2001).

Decision about the top management and the workforce has to be done. There must be a strong management structure in order to create a secure environment for the workforce, because already the announcement of the deal creates a lot of uncertainty between all the layers of the company and led to outflow of the talents who are needed for the future (Light, 2001). The different corporate and national cultures bring a lot of risk with them, because they can easily be a reason of failure for the deal if they are not handled in the right way.

Therefore, it is important to create as fast as possible a new common culture, which helps to understand the cultural differences between each other. Succeeding in merging two cultures together can be a big opportunity to create unforeseen added value. Therefore, communication is one of the most important points in the integration process. Bringing the different cultures together requires a big communication effort. Communication takes place in every step from the beginning.

Post-Mergers and Acquisitions Performances

Several researchers have tried to study the performances of acquiring firms' post the mergers and acquisitions. Nonetheless, there has been no

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concrete conclusion regarding the above. Accounting studies, event studies, clinical studies and executive studies were the most popular studies conducted. From most of the studies conducted till date, it appears mergers do not improve the financial performance of the acquirers. Event and accounting studies point out to the fact that these gains are either small or absent (Kumar, 2009). The studies conducted concluded that post-merger performance largely depends on the sector or industry and hence cannot be generalized (Matravadi & Reddy, 2008).

Performance measurement of mergers and acquisitions could not have been the exception in these debates. Researchers investigating the outcomes of the mergers and acquisitions activity have employed a variety of indicators. The majority of academics have utilized objective measures or financial indicators including the acquirer's stock market returns (Malatesta, 1983; Carper, 1990; Jensen, 1988; Sudarsanam & Mahate, 2003; 2006) or profitability gains (Hopkins, 1987; Chatterjee & Meeks, 1996; Sharma & Ho, 2002; Zollo & Singh, 2005). Others have employed subjective financial performance assessments or non-financial indicators obtained from managers involved in the acquisition using different methodologies (Walter & Barney, 1990; Hitt et al., 1998; Brock, 2005; Kavanagh & Askanasy, 2006) or from external expert informants (Canella & Hambrick, 1993; Brush, 1996; Hayward, 2002).

Performance measurement is necessary to clarify the mission and vision of an organization and assist in translating its strategies for achieving goals into measurable objectives, thus allowing the organization to not only measure its progress, but also understand what improves results. Other

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benefits include improved accountability and decision-making, an alignment of operational activities and resources with strategic objectives, a share understanding of activities planned to deliver objectives and clear communication of expectations to all organizational levels. Venkatraman and Ramanujam (1986) argued that performance is the time test of any strategy as it centres on the use of simple outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm. To other academics, organizational performance is achieved by comparing the value that an organization creates using its productive assets with the value that owners of these assets expect to obtain (Barney, 2001).

Event Study

An event study measures the abnormal returns to the shareholders during the period surrounding the announcement of the merger. This abnormal return is essentially the difference between the raw returns which is simply the change in share prices and the benchmark index (Krishanmurti & Vishwanath, 2008).

It has been seen that often the stock market performance of acquiring firms has been below expectations or negative. These returns turned to vary by the time horizon being studied. Studies of one year returns post-merger by Jensen and Ruback (1983) showed that returns averaged -5.5%. Longer time frame studies by Magenheim and Mueller (1987) concluded that three-year post-merger studies showed a -16% return. The share returns of acquiring companies tend to be fairly positive prior to the announcement of mergers. But then, on the announcement the returns are mixed. In general, it can be concluded that on the announcement of merger, the acquiring firms' shares

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decline and this process may sometimes continue for a few years (Mussat, 1995). These returns may also vary by the characteristics if the acquiring firms and the mode of financing the transaction. Lougeran and Vijh (1997) indicated that cash financed mergers do better than stock financed ones.

Studies on short terms performance reveal that the target shareholders are clear winners. On surveying the performance of acquiring and target shareholders, it is seen that over a period of three days bridging from one day prior to one day post the announcement, the share performance of the target firms tends to show affirmative returns consistently across decades as compared to the acquiring firms (Andrede et al., 2001). Rau and Vermaelen (1998) stipulated that value acquirers out-perform the glamour ones.

Accounting Study

This method involves the study of financial statements and ratios to compare the pre- and post-merger financial performance of the acquiring company. It is also used to study whether the acquirers out-perform the non-acquirers (Gaughan, 2007). Various ratios like return on equity or assets, liquidity and so on are studied. Whether a merger actually improves the operating performance of the acquiring firm is uncertain, but mostly leads to the conclusion that mergers do no really benefit in improving the operating performance. Meeks (1977) studied the impact of mergers on UK firms and indicated that in the long run, the profitability reduces extremely below the pre-merger levels, sometimes to the extent of 50%.

Similarly, a study conducted by Ravenscraft and Scher (1987) on US firms also pointed at the same result, wherein the profitability post-merger declines or at best showed marginal improvement. Dickson et al. (1997) in

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their study on a cross-section of UK firms opined that the acquisitions have an unfavourable effect on a firm's performance and lead to additional and permanent reduction in profitability. Correspondingly, a study conducted on Indian firms from 1999 to 2002 also showed no real signs of better post-merger operation performance of the acquiring firm (Kumar, 2009).

Executive Survey

This method is a primary source of information collection whereby the managers are asked about the success or otherwise of the merger. Standardized questionnaires are administered and managers are asked to respond to them and views are generalized (Bruner, 2001). Often the views of the management and the executives are not giving the due importance. Nevertheless, it must be noted that views of practitioners are equally essential to add up to the large sample scientific studies (Bruner, 2001).

In a survey of 50 executives concerning the success of mergers, an average number of respondents indicated that only 37% of the deals created value for the buyers and only 21% achieve the buyers' strategic goals (Bruner, 2001). However, a study conducted by Ingham et al. (1992) opined that 77% of the 146 CEOs surveyed believed that there was an increase in the short-term profitability after the merger and 68% believed that the profitability increased in the long term. This frame of reference has a major impact on the response either due to the better information or just ego, executive opinions are much more positive in the case of mergers where the particular executive is involved (Bruner, 2001).

Clinical Study

A small sample is studied in great depth and insights are derived from

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field interview with executives and knowledgeable observers. A clinical study is an inductive form of research whereby researchers often induce new insights (Bruner, 2001). The purpose of clinical studies is to fill in the gaps left by the study of the stock returns and accounting performances (Jensen, 1986). Various clinical studies conducted over the years have led to uncovering the truths behind the success or failures of mergers. Failure of mergers and acquisitions could be as a result of three factors. First, management objectives were not consistent with maximizing shareholders' wealth. Second was managerial overconfidence and thirdly, ignorance of available information. The tempted merger of Renault and Volvo failed because of disbelief in merger synergies and transfer of control to Renault (Bruner, 2001). This is an example of how a clinical study often helps in revealing the truth behind the failures of mergers.

Causes of Failures of Mergers and Acquisitions

There could be many causes of failed mergers and acquisitions. It is most likely that a failed merger would be as a result of poor management decisions and overconfidence, overpayment, integration issues, selecting target, strategic issues amongst others. They could be personal reasons considering which consolidation tend to enter into much activities and hence tend to ignore the primary motives of mergers and acquisitions, creating shareholder values, but good decisions may also boomerang due to wholesome business reasons.

A 1993 ILO's study on banking noted that efficiency improvements through mergers were frequently overestimated. Contemporary research appears to confirm this observation. Worldwide, two-thirds of mergers end in

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failure – some because of staff hostility and others because of insufficient preparation and inability to integrate personnel and systems. Even more failures are due to irreconcilable differences in corporate cultures and management.

Among some of these obstacles to mergers and acquisitions are bank regulation, competition policy, trade union organization, internet banking, and inadequate assessment of cultural aspects of mergers and acquisitions: each poses a limitation on effective growth of mergers and acquisitions in banking. For example, bank regulation places a limitation on mergers and acquisitions to ensure that a merged institution does not exceed the legal size to assume the position of a relatively giant monopoly, as stipulated by law. Also, a 1999 KPMG study noted that mergers and acquisitions deals were 26 percent more likely than average to be successful if they paid satisfactory attention to cultural issues, and that a company increases its chances of success if it uses reward systems to stimulate cultural integration or cooperation.

Cultural aspects therefore constitute a significant obstacle to cross-border combinations even though the differences continue to ease with time, education and training. Any merger or acquisition is a complex process taking up more time than usually expected: it requires integrating very different organizations, blending often very diverse cultures and dealing with complex questions of dissimilar work organization. This requires high levels of managerial capacity in change management, the constitution of effective teams and network integration – all demands for which many managers are ill-equipped but which can lead to an accumulation of critical errors, misunderstandings and ruin that might look like a highly promising deal on

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paper.

In Ghana, some of the challenges and setbacks for mergers and acquisitions arise from the regulatory framework that requires location specific ownership of rural banks. Although there is not much available information on the reasons for this requirement, there is an implicit assumption that such a requirement will attract local patronage and loyalty necessary to keep the bank operating successfully. However, the use of community names could possibly discourage talks on mergers and acquisition as such consolidations can result in the 'highly esteemed' community name.

Another facet of this requirement is that it inhibits people outside a particular community from investing their capital in any attractive rural bank. These and other setbacks that are peculiar to Ghana and other location-specific barriers mostly relate to regulations in the rural banking industry. The role of regulators in the rural banking sector is crucial for consolidation activities. Lynch and Lind (2002) attribute other reasons for merger failures to culture clashes, lack of appropriate risk management strategies, slow post-merger integration.

A major issue in poor strategic rationale as part of the consolidating firms' long term corporate goal is possibly the role of managerial intent in carrying out merger decisions. McDonald *et al*., (2005) indicates that in their study on corporate strategies and mergers, 'many CEOs appear happy to share the virtues of their latest acquisition it appears few are keen to highlight their failed mergers and acquisitions'. There is also the risk of an overly optimistic view of the benefits of synergy which managers may attach to consolidation. In most cases, due diligence on credit risk assessment and corporate fit is

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poorly done. The result is complex challenges confronting the new entity and an overestimated benefit in synergy.

Rural Banking and the Development of Rural Areas

Is there enough evidence of a direct relationship between access to credit in rural areas and poverty reduction or rural development? If such a relationship does exist, then the premise can be made that the development of the rural area is dependent on systems such as the rural and community banking system currently operating in countries in Ghana, Philippines and India. Burgess and Pande (2005) in their study on India found that state-led rural branch expansion and the extension of financial credit was associated with poverty reduction in rural areas.

The underlying reason for the development of the rural areas was linked to increased saving mobilization and the provision of credit facilities. Burgess and Pande (2005) further make a claim for a direct relationship between credit provision and economic growth. Rural banks usually provide more attractive interest rates on savings and deposits than the informal sector in rural areas and are therefore a better boost of economic activities. In a control experiment in Ghana, Essel and Newsome (2000) found that the financial activities of the case bank had minimal effects on their customers' income, economic activities and general welfare.

However, their study attributed the minimal economic impact by the case bank on the inadequacy of credit to the recipients. Since credit is inadequate, rural investors are unable to expand their production facilities to create jobs and improve the standards of living. It can be inferred that any attempts to increase the credit facilities of rural banks in Ghana will have a

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positive impact in the standards of living of the people in the local community.

Keeton (1996) concludes that in a survey of ten districts in The United States, there is not enough evidence that mergers reduce the lending of rural banks. On the other side, Walraven (1999) finds that mergers involving rural banks were more profitable since they held a small proportion of their assets in loans. Mergers and acquisitions have the potential to increase lending and spread credit facilities to rural areas and dwellers. This will positively translate into economic growth, wellbeing and improved standards of living for rural dwellers if the appropriate supporting structures are put in place and the risk of merger failures are reduced among rural banks.

Empirical Studies

The fact that geographical closeness plays an important role in the M&A discussion is investigated by Böckerman and Lehto (2006). They studied domestic M&As from a regional perspective and found that a great number of M&As occur within defined regions. Their results show that companies prefer to seek partners from their home regions, that larger companies overcome geographical boundaries in general more easily and that domestic M&As are more likely to occur in regions that contain a great number of companies. Regarding the international effects of M&As several papers are written.

Mueller (1997) summarized the results from 20 studies drawn from 10 countries regarding the post-World War II period. His first finding shows that the most common way to measure the effects of mergers on profitability is by computing the weighted average profit rate of the merging firms before the merger and compare it to the profit rate of the merging firms after the merger.

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To control for economic conditions the change in profits of the merged firms should be compared with a control group of similar non-merging firms or industry averages of the merging firms.

According to the study of Mueller (1997), the M&A effects in the United States correspond with the effects in the United Kingdom. In those countries most evidence points toward no increase and probably some decline in the profitability of the merging firms after the merger. However, the international results are mixed because some other studies found for both countries the opposite effect (Cosh, Hughes & Singh., 1980). Mueller (1997) concludes for other countries that mostly no distinct patterns could be found and that most results are statistically insignificant.

In some countries mergers seem to result in profit increases, while in other countries they seem to result in profit decreases. Alexandridis et al. (2010) have made also an international comparison and provide evidence that public acquisitions do generate gains, but the distribution of gains between acquiring and target firms depends on the degree of competition in the market. Acquirers in the most competitive takeover markets (U.S., U.K. and Canada) realize higher gains than acquirers in other countries. Regarding abnormal returns they found in most countries the same general view as discussed earlier in this study, where the acquires abnormal return is lower than the target's abnormal return.

Other international results regarding abnormal returns were found by Park (2004). He found significant greater abnormal returns for US firms than non-US firms, which indicates that the U.S. stock exchange responds more positively on M&A announcements than other stock exchanges. Campa and

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Hernando (2004) focused in their study on shareholder value in European M&As. The process of economic integration and the deregulation of economic activities in the European Union (E.U.) were important developments in the late 1990s and begin 2000s.

Those developments stimulated the restructuring of companies in the E.U. and especially the restructuring of companies located in the euro area. The M&A patterns found in this period are the same for European M&As as for M&As in other countries. This means that target shareholders received in general positive cumulative abnormal returns (9%) and that acquiring firms received no cumulative abnormal return (0%). Looking at the geographical dimension of merger deals in Europe, it is important to take into account institutional and policy barriers. M&As in countries with more regulatory frameworks generate lower cumulative abnormal returns than M&As in less regulated countries. The differences range between 1.3% and 5.2% for target firms and between 1% and 3.5% for acquiring firms.

Gugler, Mueller, Yurtoglu and Zulehner (2002) performed an international comparison focused on post-merger effects. They found that globally 56.7% of all M&As result in higher than projected profits and that almost the same fraction of M&As result in lower than projected sales after five years. Therefore, using profits as a measure for success gives the opposite result than using sales as a measure. From this result Gugler et al. (2002) conclude that M&As on average do result in significant increases in profits, but on the other hand reduce the sales of the merging firms. In the international comparison, Gugler et al. (2002) found that post-merger patterns of profits and sales changes look similar across countries. Though they found

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mixed results in significance levels, in the U.S., U.K. and Europe patterns which indicate a positive effect on profit and a negative effect on sales were found. M&As in Japan, Australia, New Zealand and Canada seem to have the opposite effect on profit, but this outcome is probably affected by their small sample sizes.

Looking at some country specific studies, significant patterns of profit increases can be seen in Canada (Baldwin, 1995) and Japan (Doi & Ikeda, 1983) and profit decreases in the Netherlands (Peer, 1980) and Sweden (Edberg & Ryden, 1980). A study of M&As in the Indian Oil and Gas sector (Desai et al., 2013), finds evidence that M&As do not create immediate shareholder wealth and profit margins for the acquiring firm. However, in the long term a merged company would be able to better cope with competition, decrease costs and realize grow in continuously changing business environments.

The literature shows also that country features play a role as determinants of M&As. Rossi and Volpin (2004) studied firms in 49 different countries and showed that laws and enforcement are important determinants. Differences in laws and enforcement over countries explain the intensity and the patterns of M&As around the world. This finding confirms the conclusion of La Porta et al. (1997) who argued that legal environments differ across countries and that these differences are important for financial markets. In countries with better accounting standards and strong shareholder protection the M&A market therefore is more active.

In line with this conclusion, Rossi et al. (2004) showed that firms in countries with weak investor protection are often sold to buyers from countries

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with strong investor protection. Another result that has been found in this study is that in countries with better shareholder protection hostile takeovers are relatively more likely. A one-point increase in shareholder protection, results in 0.8 percentage point more hostile takeovers. This is primarily due to the fact that shareholder protection makes control more debatable by reducing the private benefits of control. Other results found in the study of Rossi et al. (2004) are higher takeover premiums in countries with higher shareholder protection and less all-cash bids in countries with more shareholder protection for the acquirer. This last statement indicates that M&As paid with shares need an environment with more shareholder protection.

Thus, the results from international studies regarding M&A effects are mixed. It can be concluded that economic integration, deregulation of economic activities and country features play a role in the M&A process. Regarding the effects of M&As on firm performance, the literature shows that country specific results are less significant than results from studies with broader samples. Already been exposed in this literature review (by the conflicting conclusions regarding post-merger effects found in previous studies), was the difficulty of finding a decisive answer on the question whether M&As have a positive or negative influence on firm performance. For example the conclusions of Gugler et al. (2002), who showed a positive effect on firm performance and Ravenscraft and Scherer (1989), who showed a negative effect on firm performance. It can be concluded that finding an international link and exposing clear effects of M&As across countries is even more challenging.

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CHAPTER THREE

RESEARCH METHODS

Introduction

The methodology for the study is discussed in this chapter. The chapter covers the study area, research design, population and sample size, sampling technique, sources of data and instruments, data analysis and presentation.

Research Design

The essence of the research design was to contribute in answering the specific research questions and meeting the objectives of the study. The researcher employed a descriptive research method which is useful when a researcher wants to collect data on phenomena, for instance, opinions on an organization's services or performance. A descriptive research design is a scientific method, which involves observing and describing the behaviour of a subject without influencing it in any way.

According to Creswell (2014) the aim of descriptive research is to verify formulated prepositions that refer to the present situation in order to explain it; descriptive approach is quick and practical and this method allows a flexible approach, thus, when important new issues and questions arise during the study, further investigation may be conducted. Hence, the descriptive method is advantageous to the researcher due to its flexibility, giving the researcher greater options in selecting the instrument for data gathering.

Study Organisation

The Gomoa Community Bank is a merger of three Rural Banks within the Gomoa District in the Central Region of Ghana. The Community Bank received its Banking License from Bank of Ghana on 11th April, 2014 to

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operate as a rural bank. However, it started operating as a merged Bank from 1st January, 2013 with consent of Bank of Ghana. The Community Bank operates through the following branches and their respective agencies.

Apam Branch: this was formerly known as Gomoa Rural Bank at Apam. This branch has a mobilization centre at Mumford, a collection centre at Apam Secondary School Campus and mobilization centre at Dago. Afransi Branch: formerly known as Gomoa Ajumako Rural Bank located at Afransi. It has three agencies at Gomoa Eshiem, Agona Swedru and Ankamu. Dominase Branch: This branch was the former Eastern Gomoa Assin Rural Bank, with its Headquarters at Gomoa Dominase. It has three agencies, namely Gomoa Fetteh, Nyanyano and Ekwamkrom.

As a result of the merger, all the three rural banks were deregistered by the Registrar General's Department. That is to say that they have ceased to exist in their individual capacities. The Bank of Ghana also withdrew their individual licenses and thus also ceased to operate as banks. All their individual assets and liabilities were transferred to the Gomoa Community Bank Limited. The vision of the Community Bank is to become the Bank of choice in the central region of Ghana and one of the top ten rural/community Banks in the country by the year 2020.

Population

A population is made up of all the units of the group that the research emphases on. Malhotra (1996) opines that the members or units of the group should possess material facts relevant to the study and the researcher. According to Rubin and Babbie (2001), target population is "the theoretically specified aggregation of study elements". The population for the study

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constituted employees, management, shareholders and board of directors of Gomoa Community Bank which was 100.

Sample and Sampling Technique

Sampling is the procedure of choosing adequate number of elements or units called sample from a given population in such a way that by studying the sample, and by understanding the properties or characteristics of the sample subjects, it would be possible to generalize the properties or characteristics of the population (Cavana, Delahaye & Sekaran, 2001). Sample is thus the representative portion of the population that is selected for investigation (Bryman & Bell, 2007).

Purposive sampling technique was used to assess the views of the respondents on the subject under study. A purposive sample is one in which a researcher tries to create a representative sample without sampling at random. In other words, purposive sampling targets a particular group of people. The importance of purposive sampling lies in selecting information rich-cases, for in-depth analysis related to the central issue being studied (Creswell (2014)).

The study adopts the sample size formula for finite population proposed by Krejcie and Morgan (1970). From their table, a sample size of 80 is appropriate for a finite or known target population of 100. According to Krejcie and Morgan, there is no need of using sample size determination formula for ‘known’ population since the table has all the provisions one requires to arrive at the required sample size. The sample size was therefore 80.

Sources of Data and Instruments

The Researcher employed both primary and secondary sources of data

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to the study's objectives. Instruments for the collection of primary data was consist of questionnaires and interviews. The questionnaire was consisting of both open and closed ended questions. The few open ended questions were allowing the respondents to give answers in their own words whilst the closed ended questions provided a number of alternative answers for which the respondents were instructed to choose what options best suit them. Certain factors were taken into consideration in structuring the questionnaires. The most important factor was the nature of the respondents.

Bankers are always pressed for time since most often they would be in the middle of business transactions or business meetings and will not have enough time to fill the questionnaires. There is also the danger of respondents getting bored and giving less accurate answers when given a lengthy questionnaire. For these reasons, simple and straightforward questions was asked. Secondary data source was including the internet, policy manuals of the bank, books on mergers and acquisitions and annual reports of the banks.

Data Collection Procedures

Before giving out the questionnaires, an introductory letter from the Head of Department of Finance, School of Business was sent personally to obtain permission from the various heads and to inform them of the purpose of the study. There was a follow up by the researcher to the bank to inform the head before the questionnaires were administered. The researcher then booked an appointment with the heads in order to administer the questionnaire. A period of two weeks was fixed for the administration and collection of the questionnaires. Copies of the questionnaires were personally given to the respondents were they filled and submit same. Seventy out of the eighty

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questionnaires administered were retrieved from the respondents.

Data Processing and Analysis

Quantitative techniques are used in analysing and presenting the data. Quantitative data obtained from the questionnaires were coded and analysed with the help of Statistical Package for Service Solution (SPSS) for windows, version 21. Data were analysed descriptively using percentages and frequencies. Each of the questions is coded at the variable view of SPSS and the responses from the respondents are entered at data view of the SPSS. Data was analysed based on the stated objectives of the study. Tables and graphs were also used for the presentation and interpretation of results.

Ethical Issues

In order to ensure strict compliance with ethical standards of research, the researcher introduced a clause in the introductory paragraph of the questionnaire assuring respondents of anonymity and confidentiality. In addition, the time required for filling the questionnaire was mutually agreed between the respondents and the researcher.

Chapter Summary

This chapter articulated the chosen research design and justified it in terms of the research objectives and questions. It also discussed the study institution, the sampling procedure and sample, the data collection instrument, data collection procedure, data processing and analysis. The next chapter encompasses result and discussion of the study.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter deals with the analyses, discussion and representation of results. It is structured into sub headings: demographic characteristics of respondents, politics and strategies put in place by GoCB after the merger, the impact of the merger on some key financial indicators after the merger, and challenges that the merged bank faced. In all, eighty questionnaires were distributed; however, the researcher was able to retrieve 70. Therefore, the analysis is based on seventy (70) received questionnaires.

Demographic Characteristics of Respondents

This section covers the age of respondents, gender, their positions, educational level as well as the number of years they have been working for GoCB. Tables 1, 2 and 3 presents the distribution of respondents' age, sex and educational level. Table 1 presents age distribution of responents.

Table 1: Frequency and Percentage Distribution of Respondent's Age

Age (Yrs.)	Frequency	Percentage (%)
18-25	6	8.57
26-35	30	42.86
36-45	14	20
46 Above	20	28.57
Total	70	100.00

Source: Field data (2016)

As can be seen from the Table 1 the majority of the respondents are between the ages of 26-35 they accounted for 42.86% of the total respondent,

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20 respondent representing 28.57% were within the ages of 46 and above, 14 representing 20% and 6 representing 8.57 were in the ages of 36-45 and 18-25 respectively. Table 2 shows the distribution of respondents' sex.

Table 2: Frequency and Percentage Distribution of Respondent's Sex

Gender	Frequency	Percentage (%)
Male	50	71.43
Female	20	28.57
Total	70	100.00

Source: Field data (2016).

As shown from Table 2 about (50) of the respondents, representing 71% were male ad against 20(28.57%) were female. The distribution of respondents' educational level are presented in Table 3.

Table 3: Distribution of Respondent's Educational Level

Qualification	Frequency (F)	Percentage (%)
MSLC	4	5.71
SSS	2	2.86
Diploma	28	40
First Degree	24	34.29
Post Graduate	0	0
Others	12	17.14
Total	70	100

Source: Field data (2016)

Twenty-eight (28) respondents, representing 40% had diploma, 24 representing 34.29% had first degree, 4 representing 5.71%, 12 representing 17.14% and 2 representing 2.86% had MSLC, others and SSS representing respectively as highlighted in Table 3.

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Benefits Rural Banks derived from Mergers and Acquisitions

The first research objective sought to determine the benefits rural banks derived from mergers and acquisitions especially, the quality of human capital. The distribution of respondents view on benefits rural banks derived from mergers and acquisitions are captured under this section.

Policies and strategies by GoCB

This section also looked at the questions asked and responses provided by the respondents on the instruments in order to meet the objectives on the study. Table 4 highlights the frequency of respondents who worked in the GoCB before the merger.

Table 4: Frequency of Respondents who worked in the GoCB before the Merger

Did you work in GoCB before merger	Frequency	Percentage (%)
Yes	56	80.00
No	14	20.00
Total	70	100.00

Source: Field data (2016)

From Table 4, the researcher wanted to know whether the respondents ever worked in any of the three previous banks that formed the GoCB, 56 of the respondents constituting 80% said Yes while 14 representing 20 % said No. Ojanen, Salmi and Torkkeli (2008) affirmed among others that a motive of M&A with the perspective of an acquirer company may include personal motives include increased sales and asset growth, gain personal power and prestige, cashing in on short-term stock market reactions (incentive system).

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Table 5: Frequency Distribution of Respondent's Number of Years in the Bank

No of years worked	Frequency	Percentage (%)
1-10	50	71.43
11-20	12	17.14
21 and above	8	11.43
Total	70	100

Source: Field data (2016)

As shown in the above table, 50 respondents representing 71.43% had spent 1.10 years, 12 representing 17.14% had worked for 11.20 years and 8 representing 11.43 had also worked for 21 and above years as shown in Table 5.

Table 6: Frequency Distribution of the Involvement of Staff in the Pre-merger process

Were staff involved in the merger process	Frequency	Percentage (%)
Yes	26	37.14
No	44	62.86
Total	70	100

Source: Field data (2016)

When the researcher sought to find out whether staff were involved in the pre-merger process, 44 of the respondents, representing 62.88% said they were not involved, 26 representing 37.14 % indicated they were involved. Again in respect to the question "have policies and strategies changed after the merger?" 12 respondents representing 17.14% said "Yes" while 58 representing 82.86% said "No" policies have not changed as indicated by Table 7. Ojanen, Salmi and Torkkeli (2008) noted among others that a motive

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of M&A with the perspective of an acquirer company may include personal motives include increased sales and asset growth, gain personal power and prestige, cashing in on short-term stock market reactions (incentive system). As well as expansion and development which involve geographic and/or product expansion, client following and redeployment of resources to or/and from target.

Table 7: Frequency Distribution of Policies and Strategies after the Merger

Have policies changed	Frequency	Percentage (%)
Yes	12	17.14
No	58	82.86
Total	70	100

Source: Field data (2016)

From Table 8, when the respondents were asked whether GoCB, is well integrated, it was observed that 18 accounting for 25.71% said "Yes" while 52 accounting for 74.29% said "No" the bank is not well integrated. The finding do not agree with Ojanen, Salmi and Torkkeli (2008) view, as they noted that one of the motives for M&A with the perspective of an acquirer company include expansion and development which involve geographic and/or product expansion, client following and redeployment of resources to or/and from target as well as increase internal efficiency includes economies of scale.

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Table 8: Frequency Distribution of how GoCB is integrated

View on integration	Frequency	Percentage (%)
Yes	18	25.71
No	52	74.29
Total	70	100

Source: Field data (2016)

Table 9 shows the opinion of respondents on whether there had been any education related to the merger. 40 out of the 70 respondents received from respondents mentioned that there had been some education. 30 or 42.80% think there had not been any education on the merger. Impact of the merger on some key financial indicators of GoCB after the merger.

Table 9: Pre-merger Sensitization of Staff

Views on education	Frequency	Percentage (%)
Yes	40	57.14
No	30	42.86
Total	70	100.0

Source: Field data (2016)

Cost to income ratio

This is a measure of how much income should be used to cover cost of operations. High ratio indicates either high level of operational cost or low-income levels or both. when respondents were asked about their opinion on the position of cost to income ratio after the merger, 12 respondents accounting for 17.14% indicated it has increased (I). 16 representing 22.86% indicated a decline (D) and 42 of them representing 60% said there had been no change (NC) in cost income ratio as shown in Table 10. The finding agrees

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with the position of Neary (2004) who identifies two main reasons associated with M&A that is efficiency and strategic rationale. Where efficiency gain means the merger will result into benefits in the form of economies of scale and scope. Similarly, Kaushal (1995) also asserted that other factors affecting M&A change with changing political, economic, socio-cultural, technological and legal environments.

Table 10: Distribution of Respondent's Opinion on Cost to Income Ratio

Cost to income ratio	Frequency	Percentage (%)
Increase	12	17.14
Decline	16	22.86
No Change	42	60.00
Total	70	100.0

Source: Field data (2016)

Capital Adequacy Ratio (CAR) is the capacity of the bank to absorb reasonable amount of losses without the bank stopping trading. It measures the risk of insolvency from excessive losses. In their response, 14 respondents representing 20% said CAR had increased (I), 34 amounting to 48.57% said CAR had declined (D) whilst 22 of them accounting to 31.43 mentioned no change (NC) in the capital adequacy ratio as indicated by Figure 1.

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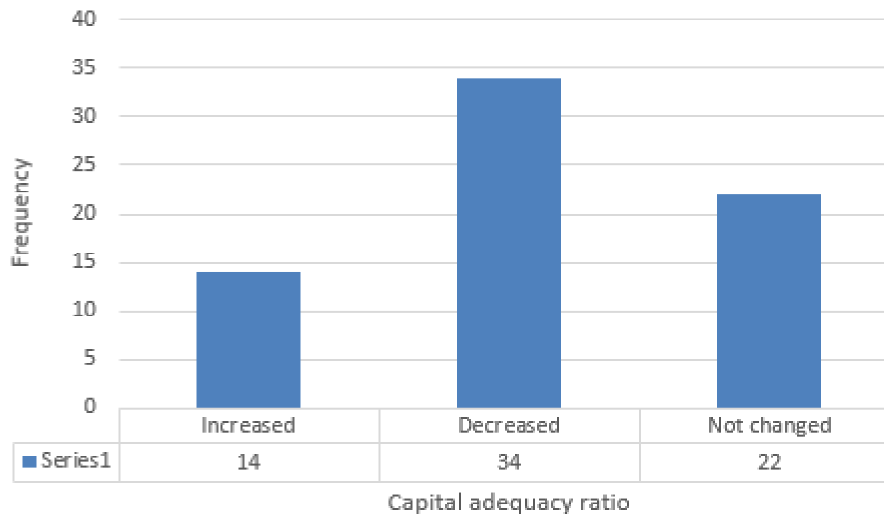

Figure 1: Respondents' opinion on capital adequacy ratio

Advances to loanable funds ratio

When the researcher sought to find out the opinion of respondents about the position of advances to loanable funds ratio, 30 of them representing 42.86% 22 respondents accounting for 31.43 and 18(25.71%) said advances to loanable funds ratio had increased (I), Declined (D) and Not changed (NC) respectively as shown in Table 11.

Table 11: Respondent's position of advances to Loanable Funds after Merger

Loanable funds	Frequency	Percentage (%)
Increase	30	42.86
Decline	22	31.43
No Change	18	25.71
Total	70	100.0

Source: Field data, (2016)

On the issue of overdue advances to gross to gross advances ratio, six (6) respondents accounting for 8.57% mentioned it had increased (I), 26 (37.14%) said it had declined (D) and 38 respondents constituting 54.29%

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indicated it had not changed (NC). With respect to earning asset to total asset ratio, 16 respondents, constituting 22.86% had observed an increase (I), 18 representing 25.715 had also seen a decline (D) while 36 of them representing 51.43% had seen no change (NC) representing 51.43% had seen no change (NC) in the earning asset to total asset ratio. Earning asset are interest bearing instrument: advances and investments. This ratio measures how efficiently assets are put into use to generate income and remain solvent from Table 12.

Table 12: Distribution of Overdue Advances to Gross Advances Ratio

Opinion of respondents	Frequency	Percentage (%)
Increase	6	8.57
Decline	26	37.14
No Change	38	54.29
Total	70	100.0

Source: Field data (2016)

From Table 13, 22.86% of the respondents agreed that earning assets to total asset ratio increased whereas 25.71% of the respondents stated a decrease in earning asset to total asset ratio. However, over 50% of the respondents' responded to no change in the ratio.

Table 13: Distribution of Earning Asset to Total Asset Ratio

Opinion of respondents	Frequency	Percentage (%)
Increase	16	22.86
Decline	18	25.71
No Change	36	51.43
Total	70	100.0

Source: Field data (2016)

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From Table 14, equal number of respondents (25.71%) stated decrease and no change in the paid-up capital after the merger exercise. However, 48.58% of the respondents indicated increase in the paid-up capital after the merger.

Table 14: Respondent's Opinion on Paid up Capital after Merger

Opinion of respondents	Frequency	Percentage (%)
Increase	34	48.58
Decline	18	25.71
No Change	18	25.71
Total	70	100.0

Source: Field data, September 2016

Few respondents (5.72%) stated that merged banks are now stronger that the three individual banks. The rest of the respondents believed the performance of the merger are either satisfactory (25.72%), marginal (42.85%) or fair (25.72%) in captured in Table 15. This research reveals that, generally, the performance indicators have not improved. These findings agree with an earlier work by Kumah (2009) who observed that from most of the studies conducted till date, it appears merger do not improve the financial performance of the acquirers.

Again, Dickson et al. (1997) in their study on a cross-section of UK firms opined that acquisitions have an unfavorable effect on a firm's performance and lead to additional and permanent reduction of profitability. Accordingly, a study conducted on Indian firms from 1999 to 2002 also show no real signs of better post-merger operation performance of the acquiring firm.

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Table 15: Respondents' View on the Performance of GoCB after the Merger

Performance of GoCB after the merger	Frequency	Percentage (%)
Strong	4	5.72
Satisfactory	18	25.72
Marginal	30	42.85
Fair	18	25.72
Total	70	100.0

Source: Field data (2016)

Problems Rural Banks encounter during Mergers and Acquisitions

The second research objective sought to identify the problems rural banks encounter during mergers and acquisition. The distribution of respondents view are captured under this section. When the researcher posted the question "in your opinion, which of these posed a challenge to the merger process?", 2 respondents representing 2.86% said choosing the name of the merger bank, 20 respondents representing (28.57%) said membership on the board of directors, 10 (14.29%) argued that the appointment of general manager, 34 respondents accounting for 48.57% said fear of staff retrenchment was a major challenge whilst 4, making up of 5.71% said other minor challenges as presented in Table 16.

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Table 16: Distribution of Challenges to the Merger

Challenge	Frequency	Percentage (%)
Choosing the name of the merger bank	2	2.86
Membership of the board	20	28.57
Appointment of general manager	10	14.29
Fear of staff retrenchment	34	48.47
Other challenges	4	5.71
Total	70	100.0

Source: Field data (2016)

Ways of resolving Challenges of Mergers and Acquisitions

The third research objective sought to explore some of the ways in resolving some of the challenges associated with mergers and acquisitions as well as the length of length in solving the problems. The views expressed by the respondents are highlighted in Tables 17 and 18 respectively. As to how these challenges were resolved, 34 respondents, accounting for 48.57% said the challenges were resolved through mutual compromise and negotiation and 36 also representing 51.43% of the respondents said by legal litigation through the court system from Table 17.

Table 17: Resolution of the Challenges

How Challenges were resolved	Frequency	Percentage (%)
Through mutual compromise and negotiations	34	48.57
Legal litigation through the court system	36	51.43
Total	70	100.0

Source: Field data (2016)

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Again, 10 of the respondents, corresponding to 14.29 % said it took between 1-6 months to resolve the challenge, 12 respondents constituting 17.14% said it took 7-12 months, 22 corresponding to 31.43 % said it took 12-18 months whilst 26 respondents accounting for 37.14 % mentioned that it took more than 19 months to resolve the challenge as seen in Table 18.

Table 18: Length of Time spent to resolve the Challenge

Duration	Frequency	Percentage (%)
1-6 months	10	14.29
7-12 months	12	17.14
13-18 months	22	31.43
Above 18 months	26	37.14
Total	70	100.0

Source: Field data (2016)

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this chapter is to present the summary, conclusions and recommendations of the study. The summary presents a brief overview of the study which encompasses the research objectives, methods and findings while the conclusions captures the overall outcomes regarding the findings of the study in light of the formulated objectives. The recommendations also present specific remedies to be implemented by the bank.

Summary

The study assess mergers as a financing option to develop the Rural and Community Banking industry, with specific emphasis on the newly merged Gomoa Community Bank Ltd. The first chapter introduces the study. Specifically, it sought to determine the benefits rural banks derived from mergers and acquisitions especially quality of human capital. The study further sought to identify the problems rural banks encounter during mergers and acquisitions. Lastly, it sought to explore ways in resolving some of the challenges associated with mergers and acquisitions.

In Chapter Two, scholarly works were reviewed from existing literature that tries to establish the link between the mergers and acquisitions between rural banks. Comprehensive review were conducted on the theoretical underpinnings of mergers and acquisitions. The theories include differential efficiency theory, inefficient management theory and hubris theory. The results of the study were analysed and discussed within the context of the stated objectives while making reference to literature review. Given the

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purpose of this study, the nature and interactions between the variables examined paved way for the use of quantitative approach.

Quantitative approach was considered most appropriate because most of the analyses are quantitative in nature hence its adoption. The study organisation chosen was The Gomoa Community Bank. The population for this study comprised all 100 stakeholders. Purposive sampling method of the non-probability sampling technique was employed to select a sample of 80 respondents from the bank. Questionnaires were used to collect data for the study. The questionnaire consisted of four sections. The questionnaires were administered by the researcher. The research instrument was designed with the assistance of the supervisor. Data were analysed using descriptive statistics using percentages and frequencies through the use of SPSS 21.

Key Findings

1. The study revealed that most of the respondents were not involved in the pre-merger process. Most of respondents further indicated that the policies and strategies have not significantly changed after the merger.
2. Most respondents noted that GoCB is not fully integrated after the post-merger and acquisition. The respondents also affirmed that there were some form of education related to the merger.
3. Most of the respondents indicated that there had been no change in cost income ratio relative to the cost of the mergers and acquisition operation. The study showed that advances to loanable funds ratio had increased.
4. Most respondents asserted that performance of the bank arising from the merger and acquisition are marginal. The study also revealed that

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fear of staff retrenchment was a major challenge associated with the merger and acquisition.

5. Majority of the respondents suggested that one way of resolving the challenges associated with mergers and acquisition by legal litigation through the court system.

Conclusions

The quality of human resource at GoCB has improved, because it has a fairly younger staff with a wealth of accumulated experience acquired over the years. The GoCB has absorbed the tendency of the erstwhile respective banks from being closed down for not meeting the bank of Ghana capital requirement for rural and community banks.

The greatest challenge rural banks face during merger are; membership on the board of directors, fear of staff retrenchment, appointment of general manager and inadequate involvement of staff and other stakeholders in the merger process. It thus also emerged that the erstwhile banks that were regarded as distressed and unsound regrouped under the new name Gomoa community bank not necessarily to correct the inefficiency in their operating system but just to meet the mandatory requirement to remain afloat and to continue business as well.

Recommendations

Based on the findings revealed by the study, it is believed that when the below recommendations are well implemented, it will improve the success of mergers and acquisition: A holistic involvement of stakeholders through education. Firstly, it was realized that the pre-merger process involved largely the board of directors with very little or no involvement of middle

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management and staff and customers of the banks, thus there is the need to educate all relevant stakeholders about merger and acquisitions. This education can take the form of workshops, seminars and advertisements through prints and electronic media. This education will help clear myths and beliefs held about mergers and acquisitions and prevent union confrontation with management and legal litigations that are capable of stalling the merger and acquisition processes.

The bank must adopt a more comprehensive approach to integrate and consolidate all other aspects of operations i.e. human resource, finance, marketing, and logistics. There is the need for GoCB to put in place proper policies and strategies to ensure proper external and internal control in order to meet any competition. There is the need to continuous training of staff in order to be abreast with the current demands in the global banking industry. Management needs to put in place strategies to deal with difficulties in communicating and leading the workforce.

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APPENDICES

APPENDIX A

QUESTIONNAIRE

THE IMPACT OF MERGERS AND ACQUISITIONS

This is an academic survey questionnaire which is aimed at identifying and collecting data about the impact of Mergers and Acquisitions (M&A) on the performance of Rural Banks in Ghana. Your kind and objective response will significantly be appreciated. This is purely an academic exercise and any information given would be treated in strict confidentiality.

Please tick, list or state where appropriate

SECTION A: DEMOGRAPHIC INFORMATION

Age: [ ] 18 – 25 [ ] 26 - 35 [ ] 36 – 45 [ ] 46 and above

Gender: [ ] Male [ ] Female

Position (pls tick/underline)

[ ] Director [ ] General Manager/CEO [ ] Deputy Gen. Manager/ CEO

[ ] Head of Credits [ ] Head of Operations [ ] Head of Internal Audit

[ ] Head of Finance [ ] HR Manager [ ] Marketing Manager

Educational level

[ ] MSLC [ ] SSS [ ] Diploma [ ] First Degree [ ] Master's Degree

[ ] Others (please specify)…………………………………………………….

SECTION B: STRATEGIES AND POLICIES

Did you ever work in any of the branches of the merged banks (ie EGARB-Dominase, GRB –Apam, GARB – Afransi) before the merger?

Yes ( ) No ( )

Are you working in the new merged bank?

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Yes ( ) No ( )

How long have you worked in this bank altogether (ie pre-merger and post-merger)……………………………………

Was management staff involved in the pre-merger process?

Yes ( ) No ( )

If yes, please mention how you were involved………………….................…………………………………………

………………………………………………………………………………

…………

Which of the following policies did your bank have in place before the merger?

a. The bank's regulation
b. Operational manual
c. Deposits mobilization Policy
d. Credit Policy
e. Investments policy
f. Liquidity management policy
g. Property, plants Equipment policy
h. HR policy
i. IT Policy
j. Corporate plan
k. Strategic Plan

(5) Have policies and strategies changed after the merger?

Yes ( ) No ( )

If yes, which of the policies have change?

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………………………………………………………………………………………

………………………………………………………………………………………

(6) In your view, would you say that Gomoa Community Bank is well integrated as a result of implementation of policies and strategies?

Yes ( ) No ( )

7. Has there been any education related to the merger?

Yes ( ) No ( )

If yes how was the education done?

Sensitization by the Bank of Ghana

Sensitization the Association of RCBs

Internal training

All the above

SECTION C

The impact of the merger on some key financial indicators of Gomoa Community Bank after the merger

Please indicate whether there has been an Increase (I), Decline (D) or No Changes (NC) to the following financial performance indicators.

(1) The extent to which cost –income ratio has changed

I ( ) D ( ) NC ( )

(2) After the merger, Capital Adequacy ratio has

I ( ) D ( ) NC ( )

(3) Advances/Loanable funds ratio has

I ( ) D ( ) NC ( )

(4) What is the position of return on Assets after the merger?

I ( ) D ( ) NC ( )

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(5) Return on Equity (ROE) has

I ( ) D ( ) NC ( )

(6) The extent to which loan loss provision to gross Advances ratio has changed

I ( ) D ( ) NC ( )

(7) Overdue Advances to Gross Advances ratio has

I ( ) D ( ) NC ( )

(8) Earning Assets to Total Assets ratio has

I ( ) D ( ) NC ( )

(9) To what extent has liquid Assets to Total Assets Ratio changed

I ( ) D ( ) NC ( )

(10) The banks paid up capital has

I ( ) D ( ) NC ( )

(11) In your view, what is the general performance of Gomoa Community Bank after the merger?

Strong ( ) ii Satisfactory ( ) iii Marginal ( )

(iv) Fair ( )

SECTION D : Challenges with the merger

In your opinion, which of these posed a challenge to the merger process

Choosing the Name of the merged banks ( )

Membership on the Board ( )

Appointment of General Manager and key management staff ( )

Fear of staff retrenchment ( )

Other challenges (Please indicate)

………………………………………………………………………………………

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…………………………………………………………………………………………

…………………………………………………………………………………………

2. How were these challenges resolved?

Through mutual compromise and negotiation

Legal litigation through the court System

3. How long did it take for the challenges to be resolved?

1 month – 6 months ( )

7 months – 12 months ( )

12 months- 18 months ( )

above 19 months ( )

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