

Mergers as a tool for survival and growth



CORPORATE MERGER AND ACQUISITION AS A TOOL FOR BANK SURVIVAL AND GROWTH (case study of Amal Bank's acquisition by BoA) 1. 1

BACKGROUND OF THE STUDY Amidst the concerns raised that Ghana has too many banks and the Ghc 60 million recapitalization requirements for indigenous banks, the Bank of Ghana is urging mergers and acquisition among the country's banks. This comes in response to fears that the local banks can hardly meet the recapitalization requirement without losing their indigenous identities to foreign entities.

The foreign-owned banks all met the requirement last year but industry players are worried local banks are rather likely to end up in the hands of foreign entities due to the challenges of raising the capital by the end of 2012. Governor, Kwesi Amissah Arthur, however says that as much as the Central Bank is concerned about this risk, the recapitalization is also crucial to reposition indigenous banks to take advantage of the country's economic prospects. He said the way forward is therefore for the local banks to consider mergers and acquisitions amongst themselves. Currently, the banking sector is one of the key growth sectors in Ghana.

Beside policy reforms, the growth of the sector has been supported by improving macro-economic conditions, notably declining inflation, rising GDP growth, fiscal discipline, etc. Some of the significant reforms that have occurred since 2001 include the introduction of universal banking, the abolition of the 15% secondary reserve requirement and the increase in the minimum stated capital of banks. Recently, the Bank of Ghana further increased the minimum capital requirement of banks in Ghana from GH? 7 million to GH? 60 million. Foreign banks have been given up to the end of

2009 to raise their capital base to GH? 0 million whilst local banks have until 2010 to raise their capital to GH? 25 million and until 2012 to raise their capitalization to GH? 60 million. The banks were expected to shore up their capital through the injection of fresh funds where applicable, but were most importantly encouraged to enter into merger/acquisition arrangements with other relatively smaller banks thus taking the advantage of economies of scale to reduce cost of doing business and enhance their competitiveness locally and internationally. Mergers and acquisitions represent the ultimate in change for a business and it is expected to add value to the business.

No other event is more difficult, challenging, or chaotic as a merger and acquisition. It is imperative that everyone involved in the process has a clear understanding of how the process works. However, merger and acquisitions do not add value in all cases. There are cases where the synergies projected for merger and acquisition deals are not achieved. “ People” problems and cultural issues are often cited as the top factors in failed integrations.

Amalgamated Bank has been the first casualty of the recapitalization requirement after losing its indigenous identity to Bank of Africa. . 2

STATEMENT OF PROBLEM The recent outbreak of bank mergers in Ghana is attracting much attention, partly because of heightened interest in what motivates firms to merge and how mergers affect competition. One often held view of mergers, especially those involving megabanks, is that firms are merging just to get bigger. Accompanying that notion is a fear that as merging firms grab greater market share, individual freedoms and competition are threatened, because bigger is perceived as greater concentration of power.

In contrast to that negative view, it is being argued in this study that mergers are motivated by more than a desire to become bigger. Mergers enable the banking industry to take advantage of new opportunities created by changes in the technological and regulatory environment. While mergers have certainly reduced the number of banks nationwide, concentration of power in local banking markets has not increased. And the very force of regulatory change that spurred bank mergers is also bringing new sources of competition to local banking markets (especially the management of the country's external reserves).

Hence, mergers are playing a useful role in reshaping the banking industry without risking a lack of competition.

1. 3 OBJECTIVES OF THE STUDY

The purpose of this paper is to examine the overall motive for Banks mergers and acquisitions in the Ghanaian Banking sector. The study will also focus on the following specific objectives:

1. To critically evaluate the structural and brand implications of the merger and acquisition option in the post consolidation era.
2. To identify the motives behind corporate merger and acquisition.
3. An examination of merger and acquisition as a survival strategy.
- 4.

To examine the impact of merger and acquisition on the level of competitiveness in the Ghanaian Banking Sector.

5. To identify those that will benefit and lose in the merger and acquisition process.

1. 4 RESEARCH QUESTIONS

The study would examine the following questions:

1. What are the implications of bank merger and acquisition?
2. What are the motives behind bank merger and acquisition?
3. Is merger and acquisition a survival strategy?
4. How would bank merger and acquisition affect competition in

the Ghanaian banking sector? 5. What are the benefits and short-comings of merger and acquisition? . 5 RESEARCH METHODOLOGY Survey research method shall be used to gather information from respondents concerning their opinions on the role of merger and acquisition as a survival strategy in post consolidation era in Ghanaian banking sector. The questionnaire to be used shall be carefully administered and a total of hundred (100) respondents in the banking sector would be selected for the purpose of this analysis. The sampling shall be done randomly such that the respondents shall cut across different departments Bank of Africa at the branches in Accra.

This could to some extent give a basis for generalization. The data, which would be collected from the questionnaire, will be presented and analyzed using frequency tables and simple percentage method. This will make the analysis of the data more concise and simple. Also data will collected from secondary sources like the internet, books, journals, dailies, etc. 1. 6 SIGNIFICANCE OF THE STUDY It is unprofessional to carry on the task of merger and acquisition without considering the motives behind it.

So, the significance of this project work relates to the evaluation of merger and acquisition as a survival option in the post-consolidation era in the Ghanaian banking sector and identifying its possible effects on the level of competition in the sector. It would also be an invaluable tool to students, researchers and other individuals that want to know more about the role of merger and acquisition as a business strategy. 1. 8 SCOPE OF THE STUDY It is true that the number of mergers and acquisition that will occur after the recapitalization deadline is not known.

<https://assignbuster.com/mergers-as-a-tool-for-survival-and-growth/>

However, the acquisition of Amalgamated Bank by Bank of Africa was the least expected and many are of the opinion that the merger was not to meet the 2012 of the apex, but fuelled by the need to survive and be a major player in the post-consolidation era in Ghanaian banking sector. In carrying out this research work, attention would be focused on the Ghanaian Banking Industry with special reference to the acquisition of Amalgamated Bank by Bank for Africa. 1. 9 ORGANISATION OF THE STUDY The research work is organized in five chapters.

The first chapter comprises the introduction, background of the study, background of the organization, statement of the problem, research objectives, research questions, significance of the study, the scope of the study and organization of the study. This would be followed by literature review and traditional views on merger and acquisition in chapter two. The research methodology shall then be outlined in chapter three before results are presented and discussed in chapter four. In chapter five, concluding comments shall reflect on limitations of the study and identify implications of the findings.