The Role of Mergers and Acquisitions in Firm Performance: A Ghanaian Case Study

Simon K. Harvey
University of Ghana Business School

This study analyzes the impact of mergers and acquisition on performance of the acquiring firm using a t-test to test the difference between the average pre- and post-acquisition performance indicators. The study uses data from the case of the acquisition of Mobil Oil Ghana by Total Petroleum Ghana Limited. The results show that while acquisition is not profit maximizing, it is growth and shareholder value maximizing.

INTRODUCTION

In response to opportunities and threats offered by globalization in the face of competitive environment, firms everywhere constantly adopt strategies to compete both locally and internationally over market share, profitability and other relevant performance categories. Corporate expansion, therefore, has become a strategy generally viewed as essential for the survival and well-being of a firm and one corporate strategy firms adopt to achieve their desired expansion goals is mergers and acquisitions.

Mergers and acquisitions are a set of ways by which two or more firms, under separate managements, pool their resources to form a single organization. Various definitions in the literature can be summarized into saying that a merger is a business combination involving two or more formerly independent and roughly equal firms on roughly equal terms under the joint ownership of the former separate owners, (see Hoyle, 2001; Weston, 1989 and Horn, 1998). An acquisition, on the other hand, occurs when one entity purchases another entity, with ownership of the combined entity remaining with the purchasing firm. The outcome of these two strategies is that only one firm exists after the transaction. However, the performance outcomes may not be the same because the management structures may differ under the two transactions. The motives of merger may include synergy, tax consideration, growth or diversification, use of surplus funds, fund raising, increased managerial skill or technology, elimination of inefficiency, increased ownership, liquidity and defense against takeovers (Seidu, 2009). Acquisitions on the other hand, may serve as an alternative to investment in R&D since they offer immediate entrance into a new market and or a larger share of a market served currently by the firm (Balakrishnan, 1998 and Shelton, 1988). Hitt (1991) observe that large diversified firms have increasingly pursued growth through mergers and acquisitions.

In spite of these useful motives, mergers and acquisitions might result in negative consequences depending on the nature of their implementation. According to Haspeslagh (1991), Roll (1988) and Sirower (1997), the impact of acquisitions on the acquiring firm's performance still remains inconclusive. Advanced economy literature has shown conflicting conclusions about the effects of mergers and acquisitions on corporate financial performance. Some of these studies include the works of Agrawal (1992) in U.S. and Limmack (1991) and Higson (1993) in the U.K. These studies, however, were carried out in environments that are quite different from that of Ghana. Moreover, mergers and acquisitions are new corporate growth strategies in Ghana and as such, their effects on financial performance of the post-acquisition and merged firms are not well known and understood in the literature. This study however, investigates the extent to which mergers and acquisitions affect corporate financial performance in Ghana using the case of Total Petroleum Ghana Limited.

The rest of the paper is organized as follows; section 2 gives an overview of mergers and acquisitions in Ghana, while section 3 presents brief profiles of the two firms involved in the transaction being studied. In section 4, I review some relevant literature on the subject and present the methodology used to analyze the data in section 5. Results of the study are presented in section 6 and section 7 contains the conclusions.

MERGERS AND ACQUISITIONS IN GHANA

There have few mergers and acquisitions of public firms in Ghana. La Palm Royal Beach Hotel, Berjaya Elmina Beach Hotel and Busua Beach Resort merged to form a new entity known as Golden Beach Hotels. National Savings and Credit Bank Limited was acquired by Social Security Bank Limited, which was also later acquired by Societé Genérel of France. Mobil Oil was acquired by Total Petroleum Ghana Limited. Kumasi Brewery Limited and Ghana Brewery Limited merged into a new company Ghana Breweries Limited, which later merged with Guinness Ghana Limited to form Guinness Ghana Breweries Limited. However, the largest of the mergers, which attracted a great deal of publicity, was between Ashanti Gold Fields Company Limited and Anglo Gold South Africa Limited to form a new corporate entity known as AngloGold Ashanti Limited. Other recent acquisitions in Ghana include the takeover of Scancom Areeba by MTN deal and the acquisition of Benso Oil Palm Plantation by Unilever Ghana Limited and Ecobank Ltd acquired The Trust Bank (TTB).

Data of these firms before and after acquisition is, however, scanty which necessitates a case study to find out if the mergers and acquisitions impact positively or negatively on firms in the Ghanaian environment.

PROFILE OF THE COMPANIES

Mobil Oil Ghana Limited is a firm in the oil and gas industry of Ghana, which was incorporated on 31st December, 1951 in accordance with the provisions of Companies Cap 193 of the Laws of Gold Coast. It was originally incorporated under the name of Socony-Vacuum Oil Company (Gold Coast Limited) as a fully owned subsidiary of Socony-Vacuum Oil Company (incorporated under the laws of the State of New York in the United States of America). However, in 1955, the parent company, Socony-Vacuum Oil Company was renamed Socony Mobil Oil Company Inc. and was renamed again in 1965 as Mobil Oil Corporation. The name of the Ghanaian subsidiary was also changed to Mobil Oil Gold Coast Limited in 1955. Subsequently, in 1957, the name was changed to Mobil Oil Ghana Limited to reflect the new name of the Gold Coast at independence.

Total Ghana Limited (TGL) is also a firm in the oil and gas industry of Ghana. It was formerly registered under the Companies Code of 1963 as BP Ghana Limited on 30th December, 1964. In August, 1992, the company's name was changed to Elf Oil Ghana Limited following the acquisition of BP Ghana Limited by Elf Aquitaine. The company's name was changed again to TotalFinaElf Ghana Limited following the merger of the parent companies of TGL and Elf Acquitaine on international markets by Special Resolution dated 21stDecember, 1999. On the 1st of August, 2003, the company's name was again changed to Total Ghana Limited following the renaming of the TotalFinaElf Group as Total S.A. Total Ghana Limited was registered with 1,500,000 ordinary shares of no par value of which 500,000 were issued to the founding members for capital of ¢999,000. The core operation of Total Ghana Limited is the marketing of Total and Elf brand petroleum products, automotive and other fuels, and specialties such as Liquefied Petroleum Gas (LPG), Aviation fuel and Lubricants, through both the retail network and other outlets.

Total Petroleum Ghana Limited is the result of the Merger between Mobil Oil Ghana Limited and Total Ghana Limited. Following the Annual General Meeting held on 6th September, 2006, the Shareholders of Mobil Oil Ghana Limited and Total Ghana Limited approved a name change to Total Petroleum Ghana Limited (TPGL). Currently, Total Petroleum Ghana Limited operates in the oil and gas industry of Ghana with several regions across the country. TPGL's core operation is the marketing of petroleum products, automotive and other fuels, and specialties such as Liquefied Petroleum Gas (LPG), aviation fuel and lubricants, through both a retail network and other outlets. In addition, TPGL is involved in a number of Corporate Social Responsibilities in the country. These include road safety campaigns in various part of the Eastern region, rehabilitation of facilities at the medical wing of the Ridge Hospital in Accra, donation to Orphan Aid Africa etc.

LITERATURE REVIEW

Several methods have been used in literature to assess the impact of mergers and acquisition on different performance indicators of firms. The five main methods used, as discussed in Wang (2012) include

i. Event studies (stock-market-based measures) (Haleblian, 1999 and Healy, 1992)
ii. Accounting-based measures (Lu, 2004; Zollo, 2004 and Sudarsanam, 2006)
iii. Managers' subjective assessments (Brock, 2005 and Homburg, 2006)
iv. Expert informants' assessment Hayward (2002)
v. Divesture Mitchell (1990)

According to Cording (2010), 92 percent of empirical studies used event study and accounting-based methods. Also, while 41 percent of the total reviewed articles use short-term event study, only 28 percent of them use accounting based measures (Zollo, 2008). Conclusions from these methods are also varied both across and with the methods leading to the inconclusive nature of literature of the impact of mergers and acquisitions.

The event study method determines the existence and effect of an "abnormal" stock price as a result of information about an unanticipated event, in this case, mergers and acquisitions. "This method is classified into short-term and long-term. Short-term event study represents an ex-ante analysis, which could in principle help to predict the future profitability, since financial markets are supposed to be forward-looking. Long–term event study, on the other hand, is designed on the consideration that stock price cannot immediately capture the effect of this event effect as some uncertainties can be eliminated as M&A process goes on" (Wang, 2012).

Using short-term event studies, Papadakis (2010) found that after a successful takeover, abnormal stock returns to the acquired firms are large and positive, while returns to the acquirers are mixed. Acquired firm's shareholders obtain statistically significant gains due to the large premium paid (Bertrand, 2008). Halpern (1983) also noted that sometimes, before the merger, the acquiring firm already had some share ownership in the target firm and any gains from the merger may have already been reflected in the acquirer's stock price.

Using both long-term and short-term event studies, Akben-Selcuk (2011) found that returns for stocks of Turkish companies involved in acquisitions exceed average industry returns for the long event windows while shorter event windows suggested otherwise. Their accounting-based analysis gives conflicting results for return on assets (ROA), return on equity (ROE) and return on sales (ROS).

Just like long-term event study, accounting-based measures of performance take a long-term perspective of acquisition performance but embody actual accounting performance indicators. This consists of a comparison of accounting performance measures of pre-acquisition and post-acquisition. According to Tuch (2007), the rationale behind this method is that the strategic aim of a business is to earn a higher return on capital, and any benefit arising from acquisition will finally reflect in the firm's accounting statements.

Different accounting measures have been used by different studies. Healy (1992) used profitability measures, earning-based measures and cash flow performance measures. Other measures used include productivity (Bertrand, 2008), innovation indicators (Bertrand, 2009) and growth rate of sales, or assets (Gugler, 2003).

Martynova (2008) discussed different accounting ratios used in assessing the effect of mergers and acquisition and among these measures, Meeks (1977) had compared profit/sales ratio, return on equity and return on assets and concluded that return on assets is the best among these ratios for assessing the effect of mergers and acquisitions. However, Barber (1998) stated operating cash flows is optimal in measuring the performance of firms after significant events, such as takeovers, as earnings can be easily manipulated.

Results of post-merger/acquisition performance assessed using accounting-based approaches are also inconclusive. The main studies that used this approach include (Meeks, 1977; Mueller, 1980; Dickerson, 1997; and Martynova, 2008). Meeks (1977) found that profitability increased in the year of the takeover but decreased in each of the five subsequent years but Dickerson (1997) also studying the same UK mergers and acquisitions had an opposite conclusion. Mueller (1980) noted that when one investigates corporate assets growth, results are much more mixed. Martynova (2008) found that using the cash-flow-based metrics has identified positive performance, while earnings-based measures result in negative performance in the case of mergers.

Managers' subjective assessment method involves asking business executives to rate the extent to which they have realized their preliminary objectives several years after completing M&As. Their initial objectives are described using some financial and/or non-financial ratios. Besides, usually, the executives are asked to give their "overall" rating about the entire performance of M&A to establish convergent validity (Schoenberg, 2006). Commonly, the respondents are the acquirers' executives (Homburg, 2006) and sometimes views are collected from the targets' executives (Brock, 2005).

The expert informants' assessment is like management assessment, but the respondents are expert informants. Some scholars use direct data from security analysts (Hayward, 2002), or directly via the ratings in financial reports and commentary (Schoenberg, 2006). Some scholars used multiple informants to improve the reliability of their findings. For example, Cannella (1993) collected both the security analysts' and the executives' assessment on the acquired firms' performance for each acquisition, and each expert provided their assessments of both pre- and post-acquisition performance. This approach provides external assessment, which can be applied when both managers' and objective performance measures are unavailable (Cannella, 1993 and Ravenscraft, 1987) and to offset their flaws.

The divesture approach assesses the outcomes of M&A by identifying whether an acquired firm has subsequently been divested or not. The logic of this measure is that merged companies deem to diversify if the acquired firm' performance does not meet their expectations (Ravenscraft, 1987). It is a relatively simple way to gauge success with no requirement of detail information. However, divestment in some instances signals successful restructure and profitable sale (Kaplan, 1992) or appropriate resource reconfiguration in response to environmental change (Capron, 2007) and these are confirmed by Schoenberg (2006) study.

Ravenscraft (1987) report that 33 percent of acquisitions in the 1960s and 1970s were later divested, while Porter (1987) finds that more than 50 percent of the acquisitions made by 33 firms in unrelated industries were subsequently divested. Mitchell (1990) said 20.2 percent of 401 acquisitions, which took place during 1982-1986, were divested by 1988. Kaplan (1992) concluded that 44 percent of the target companies acquired between 1971 and 1982 were divested by the end of 1989. However, only 44 percent of the acquirers who perform divestiture report a loss on sale.

METHODOLOGY

Data Sources

Data for the study was extracted from the annual financial reports of the acquirer, Total Petroleum Ghana Limited. Data on profitability, expenses, liquidity, liabilities, assets and sales, earnings per share and dividend per share are for the period 2000 to 2012. The head office of Total Petroleum Ghana Limited provided access to the past annual financial reports.

Analytical Approach

I used six years of relevant data of pre-acquisition and post-acquisition accounting data on the original firm. I use t-test on these data to test whether there exists any significant difference between pre- and post-acquisition performance of the original firm. Also, graphs of the variables are presented for a visual evaluation of these variables. The performance variables used in this study are grouped into six categories; profitability Ratios, expenses ratios, liquidity ratios, financial leverage ratios, growth and investment returns. Measurement of the variables under each of these categories is discussed in Table 1.

TABLE 1
MEASUREMENT OF VARIABLES

Variable	Measurement
Profitability Ratios	
Gross Operating Margin (GOM)	Gross Profit/Turnover
Net operating Margin (NOM)	Profit before tax/turnover
Return On Assets (ROA)	Profit before tax /Total Assets
Return On equity (ROE)	Profit before tax/net worth
Expenses Ratios	
Operating Expense Ratio (OER)	Operating Expense/Turnover ×100%
General, Selling and Administration. Expense Ratio (GSDER)	GSDER/Turnover ×100%
Net Interest Charge Ratio (NICR)	Net Interest Charge/Turnover ×100%
Liquidity Ratios	
Current Ratio (CR)	Current assets/current liabilities
Quick Ratio (QR)	(current assets-inventories)/current liabilities
Acid Test Ratio (ATR)	Cash and Bank + cash equivalent/current liabilities
Financial Leverage Ratios	
Long Term Liabilities to Total Assets (LLTA)	Long term liabilities/total assets
Debt Equity Ratio (DER)	Total liabilities/Equity
Growth	
Sales Growth (SG)	(Sales of current year/sales of previous year) -1
Total Assets Growth	(Total Assets of current year/Total Assets of Previous year) -1
Investment returns	
Earnings per share (EPS)	Profit after tax/number of shares outstanding
Dividends per share(DPS)	Dividends paid/number of shares outstanding

The T-Test

Let $\mu_d = \mu_1 - \mu_2$ be the difference between the population means of pre- and post-acquisitions with sample means $\bar{x}_1$and $\bar{x}_2$ respectively, then the null hypothesis of no significant difference in performance between the two periods is $H_0\colon \mu_d = 0$. We test this null hypothesis against three alternatives of negative difference ($\mu_d < 0$), either positive or negative difference ($\mu_d \neq 0$) and positive difference ($\mu_d > 0$). The test statistic for this test is

$$t = \frac{(\bar{x}_1 - \bar{x}_2)}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

Under the null hypothesis, the test statistics has a t-distribution with degrees of freedom

$$df = \frac{\left(\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}\right)^2}{\frac{1}{n_1 - 1}\left(\frac{s_1^2}{n_1}\right)^2 + \frac{1}{n_2 - 1}\left(\frac{s_2^2}{n_2}\right)^2}$$

A negative difference ($\mu_d = \mu_1 - \mu_2 < 0$) means that post-acquisition performance is better than pre-acquisition performance which leads to the acceptance of the alternative hypothesis of negative difference ($\mu_d < 0$). On the other hand, a positive difference ($\mu_d = \mu_1 - \mu_2 > 0$) means that pre-acquisition performance is better than post-acquisition performance which leads to the acceptance of the alternative hypothesis of negative difference ($\mu_d > 0$).

RESULTS

Summary Statistics

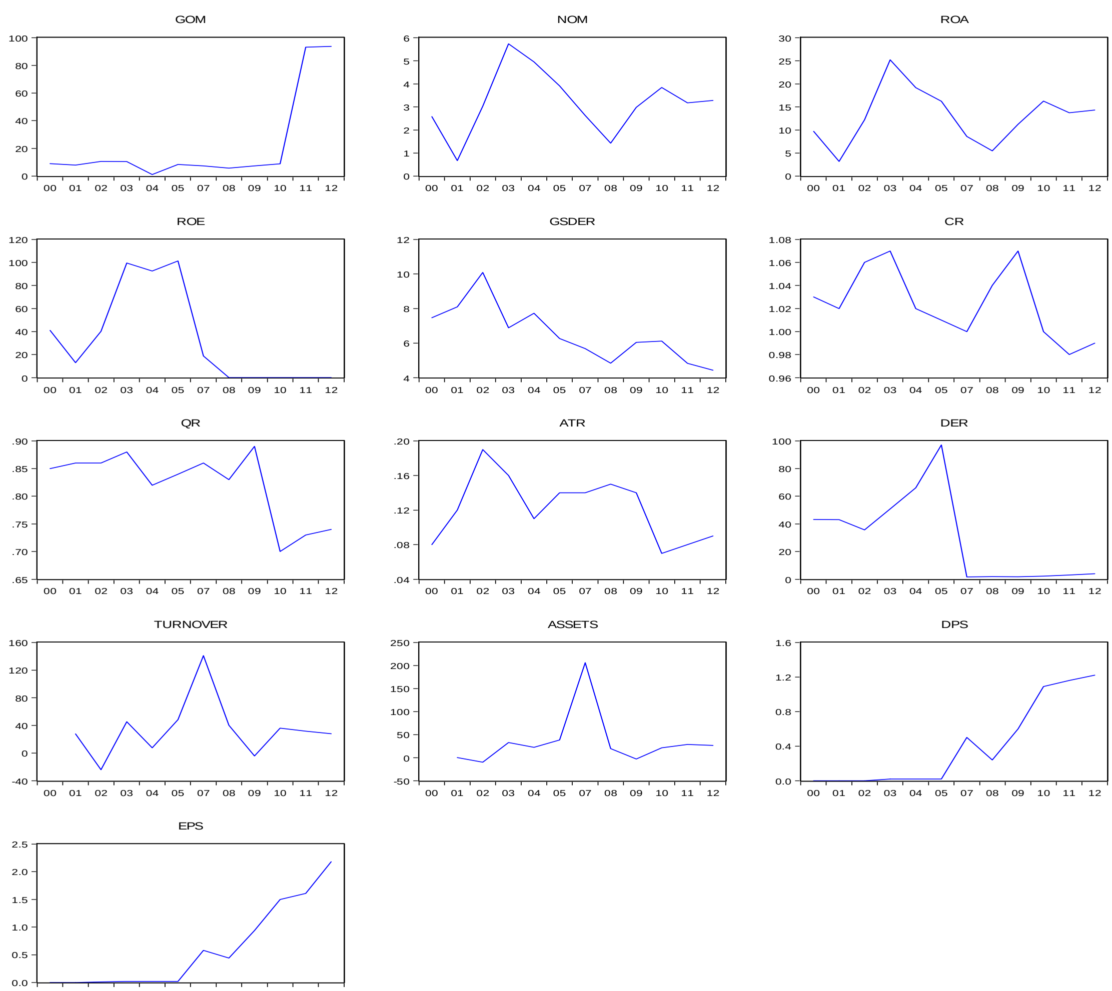
Table 2 shows the descriptive statistics for pre- acquisition, post-acquisition and for the overall period under consideration of the acquiring firm. Gross Operating Margin, on average increased sharply after the acquisition with higher standard deviation indicating higher uncertainty in gross profits after acquisition. Net operating Profit Margin on the other hand increased with a reduction in standard deviation, which indicates more stability in net profits after the acquisition. While Returns on Assets rose, Return on Equity fell with variability of both rising.

TABLE 2
DESCRIPTIVE STATISTICS GRAPHICAL RESULTS

	Pre-acquisition					*Post-acquisition*					*Overall*				
Variable	*Obs*	*Mean*	*Std. Dev*	*Min*	*Max*	*Obs*	*Mean*	*Std. Dev*	*Min*	*Max*	*Obs*	*Mean*	*Std. Dev*	*Min*	*Max*
Profitability															
GOM	*6*	*7.92*	*3.52*	*1.07*	*10.61*	*6*	*36.04*	*44.46*	*5.72*	*93.63*	*12*	*21.98*	*33.46*	*2.07*	*93.63*
NOM	*6*	*3.48*	*1.81*	*0.67*	*5.73*	*6*	*2.89*	*0.82*	*1.43*	*3.84*	*12*	*3.18*	*1.37*	*0.76*	*5.73*
ROA	*6*	*14.27*	*7.69*	*3.19*	*25.22*	*6*	*11.59*	*4.01*	*5.46*	*16.23*	*12*	*12.94*	*6.01*	*3.19*	*25.22*
ROE	*6*	*64.63*	*37.81*	*13.11*	*101.28*	*6*	*3.17*	*7.68*	*0.01*	*18.84*	*12*	*33.90*	*41.31*	*0.01*	*101.28*
Expenses Ratio															
GSDER	*6*	*7.76*	*1.31*	*6.27*	*10.09*	*6*	*5.32*	*0.71*	*4.43*	*6.11*	*12*	*6.54*	*1.62*	*4.43*	*10.09*
Liquidity Ratio															
CR	*6*	*1.04*	*0.02*	*1.01*	*1.07*	*6*	*1.01*	*0.03*	*0.98*	*1.07*	*12*	*1.02*	*0.03*	*0.98*	*1.07*
QR	*6*	*0.85*	*0.02*	*0.82*	*0.88*	*6*	*0.79*	*0.08*	*0.70*	*0.89*	*12*	*0.82*	*0.06*	*0.70*	*0.19*
ATR	*6*	*1.33*	*0.04*	*0.08*	*0.19*	*6*	*0.11*	*0.04*	*0.07*	*0.15*	*12*	*0.12*	*0.04*	*0.07*	*0.19*
Financial Leverage Ratio															
DER	*6*	*56.00*	*22.64*	*35.70*	*97.11*	*6*	*2.41*	*0.95*	*1.64*	*4.01*	*12*	*29.20*	*31.88*	*1.64*	*97.11*
Growth															
TURNOVER	*5*	*21.05*	*30.00*	*-23.97*	*48.54*	*5*	*45.42*	*49.40*	*-4.25*	*140.94*	*11*	*34.34*	*41.73*	*-23.97*	*140.94*
ASSETS	*5*	*16.92*	*20.91*	*-9.83*	*38.70*	*5*	*49.96*	*77.27*	*-2.91*	*205.98*	*11*	*34.94*	*58.80*	*-9.83*	*205.98*
Investment Returns															
EPS	*6*	*0.01*	*0.01*	*0.00*	*0.01*	*6*	*1.21*	*0.67*	*0.44*	*1.18*	*12*	*0.61*	*0.77*	*0.00*	*2.18*
DPS	*6*	*0.01*	*0.01*	*0.00*	*0.02*	*6*	*0.80*	*0.41*	*0.24*	*1.22*	*12*	*0.41*	*0.50*	*0.00*	*1.22*

Figure 1 shows the trend in all the performance indicators over the period 2001 to 2012. The figure shows that the trend, in pre- and post-acquisition, of profitability depends on the type of profitability measure. While the Gross Operating Margin (GOM) indicates a substantial increase in profitability during the fifth and sixth years after the merger, Returns on Earnings (ROE) declined in all the post-merger years. Particularly, five years after the merger, from 2010 to 2011 GOM increased from about 9 percent to about 93 percent. Hence, in terms of GOM, the merger impacted significantly and positively on profitability five years after the merger. Net Operating Margin (NOM), on the other hand, declined in all years within the post-merger period under consideration. Returns on Assets (ROA), though not strong, increased slightly during the post-acquisition period while ROE generally remains flat. The decline in ROE and weak increase in ROA after the merger indicates a less effective management during the post-acquisition period. This could mean that management was finding it difficult integrating and coordinating operations of the two previous firms. This supports the claim that it is easier to buy another business than to integrate it with your business (Brealy and Myers, 2000). In summary, performance in terms of profitability ratios is not strong after the acquisition except the GOM, which increased significantly in the fifth year after the merger.

FIGURE 1
GRAPHS OF PERFORMANCE INDICATORS



The expense ratio considered in this study is General, Selling & Administration Expense Ratio (GSDER) Figure 1 indicates that General, Selling & Administration Expense Ratio (GSDER) declined sharply after the merger. The downward trend in GSDER after the merger is consolidated, which implies that the post-acquisition firm has started to achieve operational and strategic synergies as argued by Weston (1989).

All liquidity ratios declined during the post-acquisition period, which supports the findings of Lewellen (1971). The reduction in liquidity means the new firm might run into cash flow problems and, therefore, find it difficult to meet its current obligations that could pose a threat to its operations and survival.

Financial leverage is estimated using two ratios namely Long Term Liabilities to Total Assets ratio and Debt Equity ratio (DER). However, due to lack of consistency in the reporting of long-term liabilities in the Balance sheets of both the pre- and post-merger firms, the study only employs the DER as a measure of financial leverage. Financial leverage reduced significantly in the first year after the merger. More specifically, Debt Equity ratio plummeted drastically from 97.11 to 1.64 in the first year after the merger and increases steadily thereafter. On the whole, DE ratio declined significantly from an average of 56 in the pre-merger period to an average 2.41 in the post-merger period. This may imply that the merger was debt financed.

Growth is measured by increase in turnover and assets. Growth rates of assets and turnover increased after the merger. This means that the merger increased growth in terms of assets value. More specifically, the growth rate of assets increased significantly in the first year of the merger (i.e. to about 206 percent) from about 39 percent in 2005, the immediate year prior to the merger. However, the growth rate of assets reduced drastically to 20 percent in the second year of the merger. This may be attributed to the reason that a lot of assets were acquired in the first year of the merger and consequently disposed-off in the second year of the merger. Similarly, growth in turnover improved significantly in the first year after the merger. This may be due to the monopolistic or superior market power created by the merger.

Investment returns are measured by Earnings per Share (EPS) and Dividend per Share (DPS). These two indicators of investment returns followed upward trends in the post-merger period.

T-TEST RESULTS

Table 3 shows the results of the t-statistics and the p-values for the three alternative hypotheses. The results show that return on equity (ROE), General, Selling and Administration. Expense Ratio (GSDER), Quick Ratio (QR) and Debt Equity Ratio (DER), are negatively impacted by the acquisition since we reject the null hypothesis of no significant difference in performance between the two periods in favor of positive difference ($\mu_d > 0$) between the periods. All these results are significant at 1 percent. On the other hand, the acquisition impacts positively on Earnings per Share (EPS) and Dividend per Share (DPS) at 1 percent level of significance.

The effect of the acquisition on all the Expenses Ratios and Growth are statistically insignificant at all the conventional levels of significance. The effect on Gross Operating Margin (GOM), Net Operating Margin (NOM), Return on Assets (ROA), Current Ratio (CR) and Acid Test Ratio (ATR) are also not statistically significant. The implication of these findings is that acquisition is not a pro-growth strategy but a strategy for shareholder value maximization by increasing Earnings per share and dividend per share.

TABLE 3
T-TEST RESULTS

			p-values for alternative Hypotheses		
Variable	Degrees of freedom	t-statistic	$\mu_d < 0$	$\mu_d \neq 0$	$\mu_d > 0$
GOM	10	-1.5442	0.0768*	0.1536	0.9232
NOM	10	0.7267	0.7580	0.4841	0.2420
ROA	10	0.7585	0.7672	0.4656	0.2328
ROE	10	3.9014	0.9985	0.0030***	0.0015***
GSDER	10	3.9888	0.9987	0.0026***	0.0013***
CR	10	1.2591	0.8817	0.2366	0.1183
QR	10	1.8155	0.9502	0.0995*	0.0498**
ATR	10	1.0096	0.8318	0.3365	0.1682
DER	10	5.7930	0.9999	0.0002***	0.0001***
TURNOVER	9	-0.9607	0.1809	0.3618	0.8191
ASSETS	9	-0.9208	0.1906	0.3812	0.8094
EPS	10	-4.3714	0.0007***	0.0014***	0.9993
DPS	10	-4.7473	0.0004***	0.0008***	0.9996

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

CONCLUSIONS

This study examines the impact of mergers and acquisition (M&A) on corporate financial performance using the case of Total Petroleum Ghana Limited. In order to ascertain whether the acquisition of Mobil Oil Limited by Total Ghana Limited has impacted positively or negatively on financial performance of the new firm, the study uses performance measures based on the annual final accounts data covering both the pre- and post-acquisition period of 2000 to 2012, six consecutive years prior to the acquisition and six consecutive years after the acquisition. The pre-acquisition period is from 2000 to 2005 whilst the post-acquisition period is from 2007 to 2012. The year of the merger, 2006 was not factored in the analysis due to differences in accounting practices in that year, which can bias the results.

Performance measures or indicators examined by the study are; growth rates (measured by percentage change in turnover and assets value), profitability ratios (measured by Gross Operating Margin, Net Operating Margin, Returns on Assets and Returns on Earnings), expenses ratio (measured by General, Selling & Administration Expense Ratio), liquidity ratios (measured by Current Ratio, Quick Ratio and Acid Test Ratio), financial leverage (measured by Debt Equity Ratio), earnings per share and dividend per share.

The results show that all profitability ratios, except the Gross Operating Margin (GOM), declined after the merger. Expenses ratio followed a downward trend in the post-merger period. All liquidity ratios declined slightly during the post-merged period. Similarly, the study found that financial leverage declined after the merger.

However, the study discovered that average rate of growth of turnover and assets increased in the post-merger period relative to the pre-merger period. This is an indication that the merger impacted positively on growth. Moreover, earnings per share and dividend per share were all found to have followed upward trend in the post-merger period. This implies the merger benefited shareholders in terms of increased share earnings.

I, therefore, draw the following conclusions

i. The merger did not lead to an improvement in profitability. All the indicators of profitability declined except the GOM. The general decline in profitability may be attributed to the competitive nature of the oil industry and unstable crude oil, which are exogenous to the firms' environment.

ii. The new firm might be enjoying market economies leading to persistent decline in expenses ratio after the acquisition.

iii. The merger is debt-financed which caused liquidity and financial leverage to making it difficult for the new firm to meet its financial obligations, at least in the short run.

iv. The acquisition enhanced growth of the new firm as reflected in turnover and assets growth in the post acquisition period.

v. The acquisition increased shareholder value by earning per share and dividend per share during the post-merger period. The increasing earnings per share and dividend per share together with declining profitability shows that it is possible to design a merger which produces no economic benefits (profit) but which however produces an immediate increase in earnings per share.

Following these conclusions, we can say that while the acquisition is not profit maximizing, it is growth and shareholder value maximizing.

REFERENCES

Agrawal, A., Jaffe, J. F., & Mandelker, G. N. (1992). The Post-Merger Performance of Acquiring Firms: A Re-examination of an Anomaly. *The Journal of Finance, 47*(7), 1605-1621.

Akben-Selcuk, E., & Altiok-Yilmaz, A. (2011). The Impact of Mergers and Acquisitions on Acquirer Performance: Evidence from Turkey. *Business and Economics Journal, 2011*, 1-8.

Balakrishnan, S. (1998). The Prognostics of Diversifying Acquisitions. *Strategic Management Journal, 9*(2), 185-196.

Barber, B., & DLyon, J. (1998). Detecting abnormal operating performance: The empirical power and specification of test statistics. *Journal of Financial Economics, 41*(3), 359–399.

Bertrand, O. (2009). Effects of foreign acquisitions on R&D activity: Evidence from firm-level data for France. *Research Policy, 38*(6), 1021–1031.

Bertrand, O., & Zitouna, H. (2008). Domestic versus cross-border acquisition: which impact on the target firms' performance? *Applied economics, 40*(17), 2221-2238.

Brock, D. M. (2005). Multinational acquisition integration: the role of national culture in creating synergies. *International Business Review, 14*(3), 269–288.

Cannella, A. A., & Hambrick, D. C. (1993). Effects of executive departures on the performance of acquired firms. *Strategic Management Journal, 14*, 137-152.

Capron, L., & Shen, J. C. (2007). Acquisitions of private vs public firms: private information, target selection, and acquirer returns. *Strategic Management Journal, 28*, 891–911.

Cording, M., Christmann, P., & Weigelt, C. (2010). Measuring theoretically complex constructs: the case of acquisition performance. *Strategic organization, 8*(1), 11-41.

Dickerson, A., Gibson, H. D., & Tsakalotos, E. (1997). The impact of acquisitions on company performance: evidence from a large panel of UK firms. *Oxford Economics Papers, 49*, 344–361.

Gugler, K., Mueller, D. C., Yurtoglu, B., & Zulehner, C. (2003). The effects of mergers: An international comparison. *International Journal of Industrial Organization, 21*, 625- 653.

Haleblian, J., & Finkelstein, S. (1999). The Influence of Organizational Acquisition Experience on Acquisition Performance. *Administrative Science Quarterly, 44*(1), 29-56.

Halpern, P. (1983). Corporate Acquisitions: A Theory of Special Cases? A Review of Event Studies Applied to Acquisitions, .(2), . *The Journal of Finance, XXXVIII* (2), 297-317.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: The Free Press.

Hayward, M. (2002). When do firms learn from their acquisition experience? Evidence from 1990–1995. *Strategic Management Journal, 23*(1), 21–39.

Healy, P., Palepu, K., & Ruback, R. (1992). Does corporate performance improve after mergers? *Journal of Financial Economics, 31*, 135– 175.

Higson, C., & Elliott, J. (1993). Are Acquired Firms Distinctive? The Effect of Choice of Control. . *IFA Working Paper*, 170-193

Hitt, M. A., Hoskisson, R. E., Ireland, R. D., & Harrison, J. S. (1991). Effects of acquisitions on R&D inputs and outputs. *Academy of Management Journal, 34*(3), 693–706.

Homburg, C., & Bucerius, M. (2006). Is speed of integration really a success factor of mergers and acquisitions? An analysis of the role of internal and external relatedness. *Strategic Management Journal, 27*(4), 347–367.

Horn, C. J. V. (1998). *Financial management and policy* (11 Edition ed.): Prentice Hall.

Hoyle, J. B., Schaefer, T. F., & Doupnik, T. S. (2001). *Advanced accounting.* : McGraw-Hill Co., Inc

Kaplan, S., & Weisbach, M. S. (1992). The Success of Acquisitions: Evidence From Disvestitures. *The Journal of Finance., XLVII*(1), 107-138.

Limmack, R. J. (1991). Corporate Mergers and Shareholder Wealth Effects: 1977-1986. *Accounting and Business Research, 21*, 239-251.

Lu, Q. (2004). Do mergers destroy value? Evidence from failed bids *Working Paper, Kellogg Sch ool of Management, Northwestern University*.

Martynova, M., & Renneboog, L. (2008). A century of corporate takeovers: What have we learned and where do we stand? , 32 (10), . *Journal of Banking & Finance, 32*(10), 2148-2177.

Meeks, G. (1977). *Disappointing Marriage: Gains from Mergers.* : Cambridge University Press.

Mitchell, M. L., & Lehn, K. (1990). Do Bad Bidders Become Good Targets? . *Journal of Poli tical Economy, 98*(2), 372-398.

Mueller, D. C. (1980). *The determinants and effects of mergers: an international comparison*. Cambridge, Mass.: Oelgeschlager, Gunn & Hain.

Papadakis, V. M., & Thanos, I. C. (2010). Measuring the Performance of Acquisitions: An Empirical Investigation Using Multiple Criteria. *British Journal of Management, 21*(4), 859–873.

Porter, M. (1987). From Competitive Advantage to Corporate Strategy. *Harvard Business Review, 65*(5-6), 43-59.

Ravenscraft, D. J., & Scherer, F. M. (1987). *Mergers, Sell-offs, and Economic Efficiency*. Washington, DC: Brookings institution.

Roll, R. (1988). R2. *Journal of Finance, 43*, 541–566.

Schoenberg, R. (2006). Measuring the performance of corporate acquisitions: an empirical comparison of alternative metrics. *British Journal of Management, 17*(4), 361–370.

Seidu, S. S. B. (2009). *The Impact of Mergers and Acquisitions on the Corporate Financial Performance of Guinness Ghana Breweries Limited.* . University of Cape Coast, Cape Coast.

Shelton, L. M. (1988). Strategic business fits and c orporate acquisition: empirical evidence *Strategic Management Journal, 9*(3), 279-287.

Sirower, M. L. (1997). The Measurement of Post-Acquisition Performance: Toward A Value-Based Benchmarking Methodology. *Journal of Applied Corporate Finance*, 107-127.

Sudarsanam, S., & Mahate, A. A. (2006). Are friendly acquisitions too bad for shareholders and managers? Long-term value creation and top management turnover in hostile and friendly acquirers. *British Journal of Management, 17*, 7–30.

Tuch, C., & O'Sullivan, N. (2007). The impact of acquisitions on firm performance: a review of the evidence. International Journal of Management Reviews. *9*, 141–170.

Wang, D., & Moini, H. (2012). Performance Assessment of Mergers and Acquisitions: Evidence from Denmark. *E-Leader Berlin*, 1-15.

Weston, J. F., & Copeland, E. T. (1989). *Managerial finance* (8th Edition ed.): Dryden.

Zollo, M., & Meier, D. (2008). What is M&A performance? . *Academy of Management Perspectives, 22*, 55–77.

Zollo, M., & Singh, H. (2004). Deliberate learning in corporate acquisitions: Post-acquisition strategies and integration capability in U.S. bank mergers. *Strategic Management Journal, 25*, 1233–1256.