ISSN: 2958-2326

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African Journal of Commercial Studies

Publisher's Home Page: https://ijcsacademia.com/

Research Paper Open Access

An Evaluation of the Impact of Merger and Acquisition on the Financial Health of Banks: A Case Study of Atlas Mara Bank – Zambia

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Article Info

Volume 4, Issue 4, June 2024

Accepted : 13 June 2024

Published : 16 June 2024

doi: 10.59413/ajocs/v4.i4.6

Abstract

This article critically examines the impact of mergers and acquisitions (M&As) on the financial health of banks in Zambia, focusing on Atlas Mara Bank as a case study post-merger with BancABC and Finance Bank Zambia. In an era of rapid globalization and intense sectoral competition, this research explores strategic financial responses through M&As. Employing a mixed-method approach, data was collected through structured questionnaires and interviews from a targeted sample of 30 bank employees and analyzed using SPSS and Excel. Findings indicate significant improvements in profitability and operational efficiency post-merger, with Atlas Mara Bank expanding its network and enhancing revenue streams. These outcomes suggest that strategic mergers can lead to robust financial health in the banking sector, urging policymakers and bank executives to consider mergers as a viable strategy for growth and stability. The study concludes with recommendations for ongoing analysis into the broader socio-economic impacts of bank mergers and acquisitions, suggesting areas for future research including longitudinal studies on customer and employee satisfaction post-merger. This study contributes to the literature on financial strategies under competitive pressures in emerging markets, emphasizing the importance of understanding both exogenous and endogenous risks.

Keywords: *Mergers and Acquisitions, Financial Performance, Banking Sector, Zambia, Atlas Mara Bank*

1. Introduction

The Zambian banking sector has historically been oligopolistic, dominated by a few foreign commercial banks such as Standard Chartered Bank and Barclays Bank, with Grindlays Bank providing fringe competition (Simpasa, 2010; Kalima, 2001). Following the Mulungushi reforms of 1968, the government established financial institutions rather than nationalizing existing ones. Institutions such as ZANACO (established in 1965), the Zambia National Building Society, and the Zambia State Insurance Corporation were created to enhance the financial sector's robustness.

According to the Bank of Zambia (BOZ, 2014), there were 19 full-fledged commercial banks in Zambia by the end of 2012, along with numerous other financial institutions, reflecting a significant expansion of the financial sector. The sector's nominal asset size increased markedly from ZMK 10.7 trillion in 2006 to ZMK 27.8 trillion in 2011, showcasing its growth (27.7% of GDP in 2011). However, challenges remain, particularly in the aftermath of mergers and acquisitions (M&As).

1.2 Statement of the Problem

Mergers and acquisitions (M&As) are strategic decisions typically aimed at enhancing a bank's financial performance, efficiency, and market reach. These decisions are expected to generate synergistic benefits, leading to improved service delivery, robust balance sheets, and increased shareholder value. Banks engage in M&As to increase market share, access innovative resources, and maximize efficiency through economies of scale and scope (Hitt et al., 2009, cited by Jacob, 2020). Additionally, M&As aim to introduce new knowledge, achieve synergy effects, and address financial challenges (Larsson & Finkelstein, 1999).

However, the reality within Zambia's banking sector paints a different picture. Despite the theoretical advantages, many banks have experienced declines in financial performance following M&As. For example, Atlas Mara Limited's acquisition of Finance Bank Zambia Limited in 2016 and Access Bank's acquisition of Cavmont Bank Limited in 2021 have not consistently resulted in improved financial outcomes. Factors such as integration challenges, culture clashes, overvaluation, and poor strategic alignment have frequently undermined the anticipated benefits of M&As.

Recent statistical evidence presents mixed results regarding the impact of M&As on financial performance. Some banks have faced decreased profitability, efficiency issues, and capital adequacy problems post-M&A. This discrepancy between expected and actual outcomes highlights a significant gap in understanding the true effects of M&As in the banking sector.

This study aims to bridge this gap by conducting an in-depth evaluation of Atlas Mara Bank's financial performance post-M&A. The research will assess the extent to which M&A activities influence financial outcomes, identify potential pitfalls, and provide recommendations for future M&As in the banking sector. Through this investigation, the study seeks to offer insights into the effectiveness of M&As in achieving their intended financial and strategic objectives.

1.3 Research Objectives

The research objectives are outlined for a study on mergers and acquisitions (M&As) in the banking sector, with a specific focus on Atlas Mara Bank in Zambia. The main objective was to assess how M&As affect the financial well-being of banks, particularly looking at metrics like return on investment (ROI) and profits.

The specific objectives of the study include understanding why M&As were pursued in the Zambian banking industry, comparing the financial performance of banks before and after M&As to see how they impact liquidity, profitability, and leverage. The study also aimed to identify both the challenges and benefits that come with M&A activities in the Zambian banking sector, and subsequently propose strategies to overcome these challenges.

2. Literature Review

2.1 Background and Overview of Mergers and Acquisitions

M&As have been a critical feature of business strategies globally, particularly in the banking sector. The Great Merger Movement in the U.S. (1895-1905) set a precedent for modern M&As, where small firms consolidated to form dominant market players, achieving economies of scale and scope (Coispeau et al., 2015; DePamphilis, 2016).

2.2 Empirical Literature

Globally, M&As have had mixed impacts on financial performance. In Europe, Ayadi et al. (2013) found significant improvements post-M&A, whereas Musah et al. (2020) in Ghana observed no significant changes. In Zambia, the banking sector has seen several significant M&A activities, such as the acquisition of Finance Bank Zambia by Atlas Mara Limited in 2016, which combined to form Atlas Mara Zambia.

The Zambian Perspective of M&A Approach

Several banks in Zambia have recently undergone M&As. For example, in 2012, ABSA acquired Barclays Africa Limited, aiming to improve its earnings and growth prospects. Similarly, in 2019, NIC Group PLC and Commercial Bank of Africa Limited merged to form NCBA Group PLC .

According to Jackson and Haakantu (2022), Zambia has seen a rise in M&A activities, such as the acquisition of Finance Bank Zambia by Atlas Mara Limited in 2016, forming Atlas Mara Zambia. More recently, in 2021, Access Bank acquired Cavmont Bank Limited and announced a planned merger with Atlas Mara Bank Zambia Limited.

2.3 Theoretical Framework

The study is grounded in several key theories:

Corporate Control Theory: This theory posits that M&As serve as mechanisms for replacing inefficient management, thereby improving the performance of the acquired firms (Gaughan, 2010).

Financial Synergy Theory: This theory suggests that M&As can alleviate information asymmetries and achieve financial synergies, especially for firms in financial distress with valuable investment opportunities (Myers & Majluf, 1984).

Resource-Based View (RBV) This perspective holds that M&As are strategic moves to acquire valuable resources and capabilities, which can lead to sustained competitive advantage (Barney, 1991).

2.4 Conceptual Framework

The conceptual framework for this study involves assessing the financial health of banks pre- and post-M&A. Key financial metrics include liquidity ratios, leverage ratios, and profitability ratios.

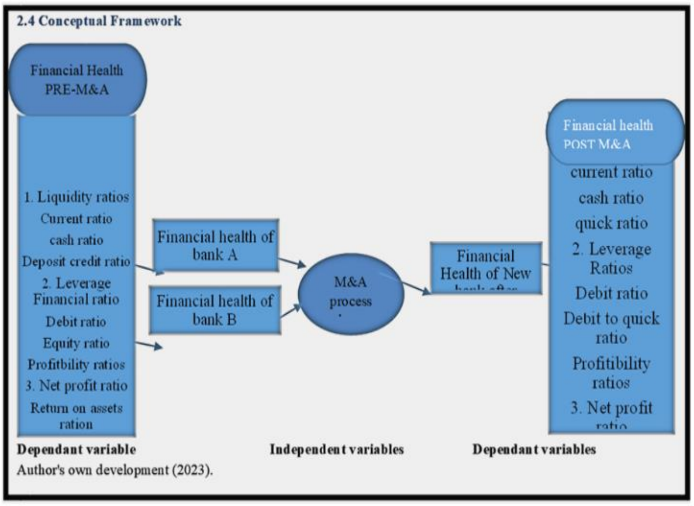

Figure 1: Conceptual framework

Independent Variables:

- Liquidity Ratios: Current ratio, Cash ratio, Deposit credit ratio
- Leverage Ratios: Debt ratio, Equity ratio
- Profitability Ratios: Net profit ratio, Return on assets, Return on equity

Dependent Variable:

- Financial Health: Evaluated through improved profitability, operational efficiency, and overall financial stability post-M&A.

The conceptual framework hypothesizes that successful M&As lead to improved financial health through enhanced liquidity, leverage, and profitability ratios.

3. Methodology

2.2 Research Design

In this study, the research design includes using both quantitative and qualitative methods to gather and analyze data. Quantitative data was collected through structured questionnaires, while qualitative data was gathered through semi-structured interviews. The study used a purposive sampling method to select 30 participants from Atlas Mara Bank.

For data analysis, quantitative data was analyzed using software like SPSS and Excel, focusing on financial ratios to assess changes before and after Mergers and Acquisitions (M&A). Descriptive statistics were used to summarize the data. Qualitative data from interviews were analyzed through thematic content analysis to identify recurring themes and insights.

Statistical analysis techniques such as paired t-tests, regression analysis, and descriptive statistics were used to validate the findings. Paired t-tests were used to compare financial ratios pre- and post-M&A, regression analysis to examine the impact of M&As on financial performance, and descriptive statistics to summarize the data.

Graphs and charts were utilized to visually represent the data, making it easier to understand the trends in financial performance.

4. Results Presentation

Measuring the success of mergers and acquisitions (M&As) involves evaluating financial, operational, and strategic indicators. Key metrics include profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE), liquidity ratios like Current Ratio and Quick Ratio, leverage ratios such as Debt-to-Equity Ratio and Interest Coverage Ratio, as well as Earnings Per Share (EPS). Operational metrics include assessing cost synergies through cost savings and economies of scale, as well as revenue synergies through analyzing revenue growth attributable to the M&A.

The graphical representations below illustrate the trends in these ratios before and after the M&A

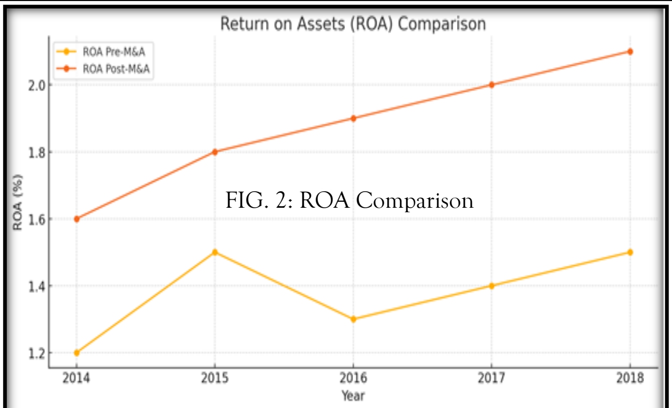

FIG. 2: ROA Comparison

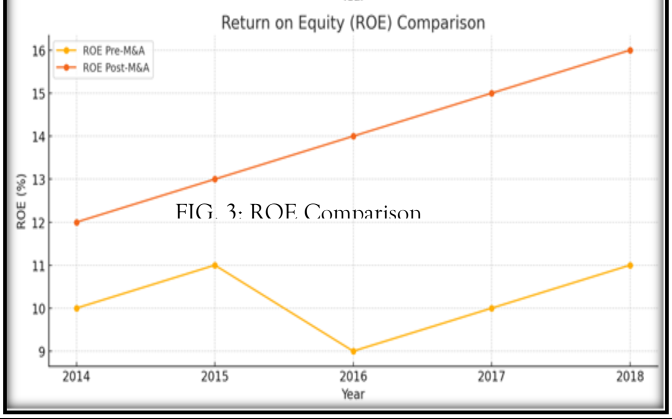

FIG. 3: ROE Comparison

Interpretation of Graphs

Financial Ratios Comparison (Pre and Post M&A)

The financial performance of Atlas Mara Bank was analyzed using key financial ratios such as Return on Assets (ROA) and Return on Equity (ROE).

1. Return on Assets (ROA) Comparison

Figure 2: The ROA increased from an average of 1.3% pre-M&A to 1.9% post-M&A. This indicates improved asset utilization and operational efficiency.

2. Return on Equity (ROE) Comparison

Figure 3: The ROE showed a significant increase from an average of 10% pre-M&A to 14% post-M&A. This suggests enhanced profitability and better returns to shareholders.

5. Discussion

The graphical analysis confirms that Atlas Mara Bank experienced notable improvements in both ROA and ROE post-M&A. These findings are consistent with the Corporate Control Theory, which posits that M&As can enhance performance by replacing inefficient management. The Financial Synergy Theory is also supported, indicating that M&As can alleviate financial distress and create opportunities for valuable investments.

6. Conclusion and Recommendations

1.2 Conclusion

The study concludes that M&As significantly enhance the financial health of banks. Atlas Mara Bank's improved ROA and ROE post-M&A demonstrate the potential benefits of strategic mergers and acquisitions. Effective management and strategic alignment are crucial for realizing these benefits.

1.3 Recommendations

1. Strategic Planning: Banks should develop comprehensive long-term strategies for M&As, focusing on integration and synergy realization.
2. Employee Training: Continuous training programs should be implemented to facilitate smooth transitions and minimize cultural clashes.
3. Due Diligence: Thorough due diligence processes should be conducted to avoid overvaluation and ensure accurate asset pricing.
4. Regulatory Support: Policymakers should provide a supportive regulatory framework to facilitate successful M&As and ensure financial stability.

Future research should explore the long-term socio-economic impacts of M&As and consider a larger sample size, including banks from different regions for comparative analysis.

Declaration of Competing Interests

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

Funding

This research did not receive specific grants from any public, commercial, or non-profit sector funding bodies.

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Cite this article as: Bettie Mpundu Mwape & Norman Kachamba (2024). An Evaluation of the Impact of Merger and Acquisition on the Financial Health of Banks: A Case Study of Atlas Mara Bank – Zambia. *African Journal of Commercial Studies.* 4(4),319-324. doi: 10.59413/ajocs/v4.i4.6