KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

GROWTH AND SURVIVAL STRATEGIES FOR MICRO FINANCE INSTITUTIONS IN THE KUMASI METROPOLIS.

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(BSc. LAND ECONOMY)

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DECLARATION

The undersigned certify that we have read through and recommended to the KNUST School of Business for Acceptance of a dissertation entitled;

Growth and survival strategies for Micro Finance Institutions in the Kumasi Metropolis in partial fulfillment of the requirements for the award of Master of Business Administration Degree in Strategic Management and Consulting.

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DEDICATION

I dedicate this work to my parents for their relentless efforts to my well being, my siblings as well as all those who are part of “TeamAHEY”. Your efforts will not be in vain.

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The researcher wishes to register his appreciation and thanks to the omnipresent Father who has been with him throughout the entire research.

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ABSTRACT

Ghana in recent times has witnessed an unprecedented era of collapse of MFIs and hence the need for appropriate strategies to ensure the survival and growth of the sector. Examples of such collapsed MFIs are Noble Dream Financial Service and Eden Micro Finance. It is against this backdrop that the current study employs descriptive method to survey 40 managers of MFIs in the Kumasi metropolis using both questionnaire and financial statements. The study sought to explore the potentials of mergers and acquisition as survival strategy for MFIs in the Kumasi metropolis. The result of the study shows that the average clientele size of the MFIs in the Kumasi metropolis has witnessed a decreasing trend over the past three years. The MFIs faces some challenges which includes the probability of panic withdrawal, inadequacy of working capital amongst others. To handle these challenges the MFIs relies on internal growth strategies such as ploughing back of profit, increasing sales of existing products and introducing new products. The MFIs rarely engage in external strategies like acquisition and mergers, and the sale of corporate bonds for growth and survival in the financial market in Ghana. In the phase of the worsening performance, the MF sector recognizes the need for the adoption of external strategies like acquisitions and mergers for growth and survival. The MFIs perceive these strategies necessary to meet the BoGs new banking rate regulation and to recapitalize the firms. The MFIs further perceive M&As as a viable surviving and growth strategy. It is based on these findings that the study recommends aggressive financial product marketing, manpower training and re-training, adoption of M&As and corporate Bond sales.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The micro-financial sector is fast growing as the linchpin of the Ghanaian economy. They play a pivotal role in the country's financial system and are essential agents in the development process. However, with the fast emergence changing banking sector, MFIs have to strive hard to achieve quality and excellence in their fields of operation so as to survive (Pinto, Prakash & Balakrishna, 2006).Moreover, all MFIs have the prime objective to grow profitably. The profitable growth of MFIs is likely to be internal or external. The internal growth can be attained either through the process of developing new products or by growing the capacity of existing products or sustained improvement in sales (Mallikarjunappa & Nayak, 2007). External growth can be achieved by merger and acquisition of existing business firms (Ghosh & Das, 2003). Mergers and Acquisition have become global phenomena with almost 4,000 deals taking place every year (Alao, 2010). In the United States Mergers and Acquisitions spanned in five eras which have been classified as merger waves (Mangold and Lippok, 2008; Ilo, 2001; and Jimmy, 2008). In Ghana however, Merger and Acquisition only became prominent and visible in the banking industry in recent times but largely non-existent in the micro-financial sector. Based on the proposed capital base requirement of MFIs from GH¢500,000 to GH¢1,000,000 by the Bank of Ghana, there is the need for existing and emerging MFIs to consider merger and acquisition as a survival strategy. Moreover, the process of merger and acquisitions (M&As) has been argued to enhance bank efficiency through cost reduction revenue in the long run. Successful merger offer increases the combined value of the merged entity by an average of 7.4% (Bradley, Desai & Kim, 1988).

In Ghana, 2013/2014 was marked with unprecedented collapses of MFIs, in spite of the fact that they met the minimum requirements for licensing such as, capitalization and staffing, by the primary regulatory authority, the Bank of Ghana. Some of the prominent MFIs that collapsed during the period in the Kumasi metropolis are Noble Dream Microfinance, Royal Winners Financial Services and Eden Microfinance. MFIs are characterized by structural and operational weaknesses such as; low capital base, supremacy of a very few banks, insolvency and illiquidity, overdependence on public sector deposits and forex trading, poor asset quality, low depositors' confidence and weak corporate governance (Oghojafor & Adebisi, 2012). Given these bedeviled circumstances, it is sensible to ensure quick and spontaneous intervention strategies to save the system from total collapse. Among the various strategies adopted by banks to attain the whimsical capital base was consolidation through Mergers and Acquisitions (M&A). For instance, the Nigerian banking sector regulator; Central Bank of Nigeria (CBN) employed merger and acquisition as a consolidated instrument to correct the deficiencies in the financial sector in 2005 (Oghojafor & Adebisi, 2012) and Ghana can learn from this example. The banking sector reforms and recapitalization resulted from deliberate policy response to correct perceived or impending banking sector crises and subsequent failures. The M&A option, specifically recommended among others by the CBN, was acclaimed as the most widely used corporate strategy to strengthen capitalization in banks (Ajayi, 2005). The credence that M&A would eliminate marginal players and provide strong banks that could gain economies of scale through reduced expenses and earnings volatility and increase long-term profitability led to the use of M&A as a major strategy to restore soundness and stability to banking system. It was this that actually necessitated the need for an overhauling strategy of the entire MFIs system which made the Bank of Ghana propose an imminent reform agenda that could significantly change the sector's landscape. This proposed reform is further attempt to reduce entry of MFIs in the banking industry so as to enhance their operations. This study therefore aims to evaluate Mergers and Acquisition as Strategic Intrusions in the MF Sector.

1.2 Problem of the Study

Microfinance Institutions (MFIs) have assumed prominence as important lending institutions in the economic development process of developing countries. However, in Ghana, 2013/2014 was marked with unprecedented collapses of MFIs, in spite of the fact that they met the minimum requirements for licensing such as, capitalization and staffing, by the primary regulatory authority, the Bank of Ghana. Some of the prominent MFIs that collapsed during the period in the Kumasi metropolis are Noble Dream Microfinance, Royal Winners Financial Services and Eden Microfinance. After few years of existence, Noble dream, a MFI in the Kumasi metropolis is believed to have advanced loans totaling GH¢48 million to over 500,000 customers of its 24 offices across Ashanti, Greater Accra and Western Regions of Ghana (Adu, 2013). Most of the owners of MFIs considered their MFI businesses as a trade where people moved on to establish their own after a few months of training (Owusu-Nuamah, 2014). Owners often do not pay attention to the analysis and consequences of the decisions they take. These business owners often do not listen to the advice from the few finance professionals they employ. These professionals also have no option but to allow owners to have their way in the interest of their job security. There is no doubt that corruption too may have played a significant part in the number of recorded MFIs failures in Ghana. For example, as Owusu-Nuamah (2014) observed, fraudulent activities by some corrupt staffs of some MFIs resulted in the unparalleled collapses in 2013, which acts were easily orchestrated and made possible as a result of weak internal controls, bad accounting software and poor supervision. Corrupt staff members of some MFIs either created nonexistent accounts for taking loans or recorded fake expenses. Such corrupt practices were also not helped by cases where some of the software the companies were using allowed users to delete transactions so that account balances could increase again to allow for more withdrawals.

High number of MFIs fail in the first five years of operation, often as a result of overtrading, inadequate operational funds and financial strain (Hayder, 2002; Bank of Ghana, 2007; Ghartey, 2007; Nair & Fissha, 2010). On average, the number of MFIs that collapses exceeds those that grow and expand, with approximately only 5 percent of MFIs growing from seven or less employees to ten or more (Basu, Blavy, &Yulek, 2004). Generally, MFIs do not nourish the aspiration to corporate governance best practices (Labie, 2001). When MFIs fail to access the requisite financing, it then becomes very difficult to run their day-today operations. Given that effective working capital management is considered as a mandatory component of organisational growth and profitability, then, inadequate financing is bound to be an obstruction to the profitability of MFIs. This situation is likely to have immediate effect on the growth of MFIs and individuals and enterprises that benefit from such MFIs. Moreover, it is bound to have long-term negative implications on the country's socio-economic development. The foregoing necessitated the current study which seeks to evaluate the potentials of Mergers and Acquisition as Strategic Interventions for the survival of MFIs.
The regulatory body for the MFIs, The Bank of Ghana, has raised the minimum capital requirements for the MFIs from GH¢ 500,000.00 to GH¢ 2,000,000.00 by June 2018

which places the MFIs in a dire situation. M&A is important to safeguard recapitalization of MFIs to ensure their development and existence in Ghana

Mergers and acquisition are external sources of strategies for survival for MFIs and it is the changing of two self representing organizations with distinct names into one single business substance developing from agreement

1.3 Objectives of the Study

The main objective of the study was to evaluate the potentials of Mergers and Acquisition as Strategic Interventions for the survival of MFIs in the Kumasi metropolis. The study specifically sought to:

1. Assess the current performance of MFIs in the Kumasi metropolis;
2. Determine the operational challenges of MFIs in the Kumasi metropolis;
3. Determine the strategies adopted to ensure survival of MFIs in the Kumasi metropolis; and
4. Ascertain mergers and acquisition as growth and survival strategy for MFIs in the Kumasi metropolis.

1.4 Research Question

Considering the direction and weight of the study, numerous critical questions are required to be answered. These critical questions include:

1. What is the current performance of MFIs in the Kumasi metropolis?
2. What are the operational challenges of MFIs in the Kumasi metropolis?
3. What are the strategies adopted to ensure survival of MFIs in the Kumasi metropolis?

4. How feasible is merging an alternative strategy for MFIs survival in the Kumasi metropolis?

1.5 Significance of the Study

The significance of the research is to know how to effectively and efficiently manage the survival of MFIs. The final research finding will give management the opportunity to have an in-depth understanding of Acquisition and Mergers as an efficient and effective strategy for growth and survival in the turbulent banking sector in Ghana. Since MFIs normally have problems getting external finance, merging and acquisition can help reduce over reliance on external finance. It could also be a blueprint for policy makers and regulators to help shape the debate on MF sector and guide policy direction as was done in Nigeria in 2005. It would also provide the base for modeling failures of MFIs attributed to ineffective alternative source of finance in the developing world. The study would also contribute immensely to the available literature in the field of Acquisition and Merger practices.

Furthermore, responding to the recent trend of the rapid collapse of many MFIs in the Kumasi metropolis and the gap in knowledge on whether and how these institutions should be regulated to ensure effective operational practices, it is imperative for a study to be carried out to provide a framework for Acquisition and Mergers as potential strategy to arrest the current trend of collapse of many MFIs in Ghana.

1.6 Scope of the Study

Geographically, the study was confined to Kumasi metropolis, the capital of the Ashanti region of Ghana. The area was chosen because of convenience to the researchers in obtaining the necessary responses for the study. Moreover, Kumasi which was chosen for this assessment has a wide range of informal, semi-formal and formal MFIs providing financial services to the poor. The study therefore involves selected tier 2 MFIs in this area. In terms of content, the study focuses on assessing the current performance of MFIs, the operational challenges of MFIs, the strategies adopted to ensure survival of MFIs and merging as an alternative strategy for MFIs survival.

1.7 Limitation of the Study

Regardless of the useful findings of this study, this empirical study has a lot of limitations to be acknowledged. Initially, the findings of this study rely on upon the genuineness of the respondents. It is realized that people would concur more on socially attractive answers and differ more towards socially undesirable answers instead of completely and genuinely express the inclination and assessments. Next, the restriction of this examination is that the information of this study is gathered through the overviews, so there is a high likelihood of off base data. In addition, the little specimen size restrains the unwavering quality and the speculation capacity of the study. In addition, as a mixed approach study, the focus of the study is therefore not on generalization, but on particularization which provide in-depth understanding of the possibility of M & As as a growth and surviving strategy.

1.9 Organization of the Study

The thesis is categorized into five Chapters. The first chapter gives an introduction and background information about the area of study. This chapter also presents the research problem, objectives, significance and limitations of the study. Chapter two mainly explores various literatures related to the mergers and acquisitions as growth and surviving strategies for MFIs in Ghana. The methodologies that were used in Chapter Three are highlighted and also explain why specific methodologies were chosen for this research. The chapter further presents the research design and data capture methods used in this research. The Chapter Four of the study contains data analysis, result presentation and interpretation from both a qualitative and a quantitative point of view. The final chapter, chapter five deliberates the results, and provides a general review of the successes and challenges made in the research. This chapter also outlines some conclusions and recommendations made during the research process.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews literature pertinent to the various thematic areas of the study including the concept and scope of microfinance, sources of funds for microfinance, and success factors and challenges of microfinance. It further reviews literature on the surviving and growth strategies of adopted by firms. The chapter also reviews literature on the concept of mergers and acquisitions (M&As), the types of mergers and acquisitions, the rationale for acquisition and mergers of banks, and the critical success factors of M&As. The final section of the chapter reviews numerous empirical literatures on M&As and firms performance.

2.1 Definition and Scope of Microfinance

The necessity to accomplish fairness could have encouraged governmental involvement in financial sector even in the nonattendance of the failure of the market as competing financial sector dispersed worth in a communally desirable mode. The intervention of the state was however necessary to safeguard and help the susceptible (World Bank, 2008 cited in Adjei, 2010). By the way, MFIs were introduced as a way of getting to the gone citizenry and to weaken the domination supremacy of domestic lenders who take ludicrously huge rate interest on credit facilities. Consequently two factors may defend state involvement to offer social safety net. Consequently, states may finance improvement, as well as have the ability to contribute at the governmental level in order to manage the co-variant uncertainties. Groundbreaking preparations may reply to fairness necessities in specific through the provision of micro credit facilities in remote communities for the proportion of the destitute population (Adjei, 2010).

Micro credit has been described through varying academicians in varying modes. Baten (2009) described micro credit as the delivery of a wide variation of banking facilities that includes payment services, money transfers, deposits, loans, and safety net to destitute and households in the low income class. Additionally, Micro credit is described as a diversity of financial products that meant for the destitute, predominantly the vulnerable female gender in societies (MIX, 2010). Based on the described academic definitions, the customers of MFIs are in the bracket of lower income and many times barely have access to banking products, micro financial services are designed to be for lesser financial sums but that of old-style banking products.

A systematic description of microfinance is given by Robinson (2001) as micro credit products– basically deposits and savings – delivered to the proportion of the population that are engaged in farming or fishing activities; who run small scale businesses where products are manufactured, cast-off, mended, or vended; who offer products; who acquire revenue through given out little volume of land, cars, animal draft, or equipment and instruments; and to other persons and teams at the domestic phase of less developed nations, both remote and cities. The description given by Robinson constitutes all that micro credit is marked to perform through its introduction. Consequently, it deliberates the activities of micro credit; the aids it provides to individuals that require it, the types of products offered thru micro credit activities, the group of individuals it helps and even the group of individuals. Consequently the description is part of the significantly complete likened to all the other descriptions cited.

Institutions are mechanisms through which microfinance are run. Consequently, it is essential to describe microfinance institution as well. Incidentally, Ablorh (2011) described Microfinance institution (MFI) as consisting of mediators and companies that are involved in comparatively smaller banking businesses employing specific, Behaviour-based procedures to assist household with low level of income, micro-businesses including small-scale growers, and others having difficulty in obtaining credit through the banking mechanism. MFIs are further suggested to offer social mediating products including group formation, self-assurance growth, and financial literacy training and others like the development of the administrative abilities of group members.

2.1.1 Sources of Funds for Microfinance

MFIs are suggested to have obtained key attraction from NGOs, due to their capability in serving influential instrument for mitigating poverty (Fehr &Hishigsuren, 2005). Based on this, huge amounts of funds are spent around the world to ensure the development of MFIs. The researchers suggest that, the main cradle of financing micro financial institution is endowments and hugely supported credit, or loans that attract no interest charges. Multilateral banks, state agencies that provide assistance and apex institutions offer the soft loans.

Deposits provide funds for MFIs, as in the US alone liabilities of 97% of demand deposits and time deposits are provided by commercial banks (Hempel& Simonson, 1999). This suggestion is also supported by reports that savings as key source of funding for MFIs cuts across provincial or social connotations from which the financial institutions developed (Wisniwski 1999). Fehr &Hishigsuren (2005) characterized the bases of funding MFIs into four phases. The researchers suggest that Phase One signifies the beginning phase and is mainly funded through donations from NGOs, soft-loans and deposits. Phase Two signifies Operative Independence and so is mainly funded through donations from NGOs, loans without interest charges, deposits, commercial credit and monies guaranteed. Phase Three referred as Financial Independence, a stage of maturity of the MFIs where private debt capital obtainable. The researchers suggest that, the debt mechanisms are yet predominantly loaded with preventive agreements and frequently are required to attach guarantors. The phase four is termed as Commercial Level Return of micro financial institutions development and so provides old-fashioned parity funding.

2.1.2 Success Factors and Challenges of Microfinance

Contributing elements of development and sustainability of MFIs worldwide are termed as success elements. Certain foremost MFI similar to Grameen Bank have been examined and recognized with time. It has survived turbulence of the period. Consequently, the majority of MFIs admire the Grameen Bank as an example of MFI and to walk its accomplishment.

Mamun therefore in 2012 conducted a research about the successful elements of the Grameen Bank. The research resolved that, the triumph elements of Grameen Bank (GB) is made up of novelties that constitute plan and operation of strategies similar to team-like crediting, the security free crediting scheme, peer group oriented checking scheme, as well as highly equipped and devoted employees of Grameen Bank. The result further revealed that Grameen Bank inspires its employees and clients via the provision of well-planned motivational schemes for employees, distribution and enlistment of capitals and reassurance of the clients to be monetarily self-reliant. For micro-financial institutions to deliver efficient monetary middlemen role, there is the need for effective-operative supervisory outline for a country (Armendariz&Morduch, 2004). Furthermore, states or nations are required to establish a macroeconomic atmosphere branded by stability in development, less inflationary rate, and fiscal soundness so as to ensure the survival of MFIs (Woller& Woodworth, 2001).

Nations can further promote arcade-founded MFI through eradicating biased rivalry from state organizations, performing general supervisory changes, and refining the general marketing atmosphere (Hubka&Zaidi, 2005). Crabb (2008) suggest that elements influencing the survival of micro financial institutions may be categorized largely into environmental and institutional variables. Crabb further describes institutional factors as the elements that are peculiar to the organization, whilst atmospheric factors constitute procedures and financial locations of the nations the organization works.

The critical obstacles of the MF subdivision in less developed nations, like Ghana, are ability development; insufficient and luxurious substructure system; loan distribution and administration; information gathering and dissemination; regulation and supervision (Adjei, 2010). Muhammad (2010) also suggests that the critical obstacles confronting MFIs constitute indecorous guidelines, augmented rivalry from the formalized financial subdivision, unpredictability, imperfect managing ability, interferences from politicians, greater level of business cost, and insufficient channeling of fund into the agrarian sector, limited knowledge level. Deprived macroeconomic factors, supervisory and business strategies may also weaken the feasibility of micro financial institutions and their survival (Woller & Woodworth, 2001).

2.3 Surviving Strategies of Companies

The planned advertising procedure includes the examination of the rational stages in scheduling the novel to best reworking of chances (Aham, 2003). The rudimentary practice of this procedure is that the institution employs the advertising procedure to change frustrated business requirements into lucrative ventures. The procedure has allowed the vendor to be a correspondent, investigator, economist, creation, psychologist, and many other characteristics innate in the occupation of humanoid abilities (Aham, 2003). Enterprise upsurge is requirement for the sustenance of enterprises. A business organization that rarely grows for a time period may collapse due to outdated goods. The marketplace is made up of instances of actual well-known goods vanishing from the market due to the absence of development strategies (Dollinger, 2006). In Ghana, the MFIs in the banking sector have hit a reign of mass collapse due to several factors including capital base inadequacy, poor management personnel and many others.

Enterprises employ growth as a policy for survival. In a rivalry marketplace, enterprises perform well to overtake competitors via straight or unintended rivalry. Straight rivalry immerges through other companies creating similar goods whilst unintended rivalry could immerge from the obtainability of inexpensive alternates. To endure the rivalry the enterprise has to unceasingly come out with novelty forms of rudimentary goods to uphold an advantage over rivalries. Unadorned rivalry encourages enterprises to develop and attain rivalry acumen. A rising anxiety may be a modernizer and may effortlessly confront the uncertainties of rivalry. Therefore growth is mode of endurance in a modest and stimulating atmosphere (Saxena, 2005) similar to the financial atmosphere. Growth of an enterprise should offer numerous parsimonies in manufacturing, buying, advertising, money, administration etc. A growing firm relishes the recompenses of unpackaged acquisition of resources, augmented bartering control, dispersal of expenses, proficient administration etc. This promulgates minimal cost of manufacturing and advanced edge of revenue. The proprietors of an organisation obtain the final advantage of development in the procedure of advanced incomes.

2.4 Types of Growth and Surviving Strategy adopted by Firms

Strategic procedures expressed and applied for growing the operations of enterprises refers to survival and growth strategy. For small enterprises, growth procedures are particularly critical since these enterprises are less resistant to minimal changes in the market. For example, the informal entrance via the presenter source base condition is defined as the nuisance of business development and hence the existence of numerous micro financial institutions, joined with decision-making gaps, unrestrained growth, insufficient income input and methodical corrupt practices. Nevertheless, alterations in clients, fresh moves by rivalries, or variations in the general commercial atmosphere may adversely influence the flow of cash in the short run. Adverse influence on the flow of cash, if not estimated and attuned for, may encourage enterprises to close. This is the reason for the requirement of strategies for the forthcoming period (Rhonda, 2010).

2.4.1 Internal Growth Strategy

Growth from within is termed as internal growth. It is premeditated and sluggish upsurge in the size and capitals of the enterprise. An enterprise may develop within by ploughing back profits annually. This results to the development of the manufacturing and rummage sale income of the enterprise. This type of growth occurs via upsurge in the rummage sale of current goods or through the addition of fresh goods. Internal growth is sluggish and includes moderately diminutive alteration in the present institutions system. It can be structured and man effortlessly since it is very sluggish (Ghosh, 2000). Certain elements of the key interior growth and persisting policies employed by organizations constitute development plan, modification plan, and technical invention plan.

Nevertheless, outside some stage, it is not likely for an enterprise to grow in the rudimentary goods marketplace. Hence the enterprise pursues augmented sales through emerging goods for fresh marketing opportunities. This route for development is referred as diversification. The broadening strategies rarely engulf adding numerous product nonetheless toting completely dissimilar kinds of goods. Goods supplemented could be balancing avenue. Diversification is a much spoken about and extensively employed plan for development. Numerous organizations have chosen the strategy. For instance, Bank of India undertook diversification in the areas of mutual funds and merchant banking. An enterprise could opt to employ a strategy to diversify when it pledges higher levels of success than expansion (Ghosh, 2000).

2.4.2 External Growth Strategy

Mergers and joint ventures are often developed through external mode such external growth. An enterprise could buy another enterprise in order to pull financial strength together to enhance their competitive power in the sector. Nevertheless, owing to the triumph story of M&As in numerous less developed nations in the sector of MF, the current study emphasizes the need for mergers and acquisition as a growth and surviving strategy for MFIs in Ghana. Mergers and acquisitions (M&A) as an external growth strategy has become dominant as a result of increased deregulation, privatization, globalization and liberalization adopted by numerous countries the world over. M&As

have gain an impetus as a critical avenue to broaden a firms goods collections, go into fresh production, obtain fresh knowledge, obtain entree to exploration and expansion, and obtain entree to capitals that could allow the firm to contend at international level (Yadav& Kumar, 2005). A unique plan employed by numerous institutions to permeate the fresh or developing market opportunities, obtain contemporary mechanical abilities and information, improve fresh decision-making know-how, as well as improve their revenue base is via M&As.

2.5 Mergers and Acquisition

Merger and obtaining alludes to the element of publicizing and strategy for success managing the purchasing, offering, isolating, and consolidating of diverse organizations and comparable substances that can help an association develop quickly in its operation, without making an auxiliary or utilizing a joint endeavor (Oghojafor & Adebisi, 2012). It is likewise the melding of two or more organizations, whether the combination is intentional or authorized (Frear, 1990), suggesting that the merger and securing of organizations who submerge their different characters into another organization shaped are to procure resources and accept the liabilities of the exchanged organizations. Watts (1994) separated a procurement from a merger by characterizing securing as a circumstance where an acquiring so as to gather additions control over an organization controlling enthusiasm for its voting capital. Procurement is accordingly a business method where a specific specialty unit or organization is obtained by another organization. An obtaining may be portrayed as private or open contingent upon whether the "acquiree" is either recorded or not on open securities exchanges. An acquisition sometimes however occurs when smaller companies obtain administrative control of a larger, long standing firm and maintain the name of the last for the post-acquisition joined unit. A merger as characterized by Gaughan (1999) is a mix of two or partnerships in which stand out enterprise survives. On the other hand, Kay (1993) opined that mergers and procurement regularly shape a piece of the arranged decisions foreseen to change firm presentations. In the perspective of Lynch (1997), mergers as a rule climb when neither one of the firms has the gage to acquire the other naturally weaker firm; development can be made by business person that is as of now perceived through mergers contract. Merger is just the changing of two self-representing organizations with distinctive names into one single business substance developing from the agreement. Through mergers debilitated organizations can be transformed by consolidating them with solid and productive concerns since it frequently less expensive to acquire a current unit than to set up another one. Brisk passage into new lines of business is in this manner permitted by mergers (McLaughlin, 1996). Various mergers and acquisitions have occurred in the saving money segment in current years. Various the mergers have been brought about by the need to meet the developing least center capital prerequisites, furthermore to enhance associations' piece of the overall industry in the exceptionally aggressive nearby managing an account domain through the subsequent cooperative energies.

The use of the term Merger or acquisition or buyout or takeovers are often used interchangeably and all forms part of M&A (Sudarsanam, 2003). Owners of merged companies still keep part of their ownership in the new company; in the case of an acquisition, the owners of the attained companies are paid off and the attainer becomes the possessor of all, or a considerable share of, the possessions of the attained firm. In the new firm that emerges, what the fate of shareholders becomes is essentially the major difference between mergers and acquisitions. Nevertheless, where these words are used jointly, it could mean that an event brings two or more firms together, often to gain market power, share costs or increase efficiency (Ullah *et al*., 2010). M&A is a planned decision through which companies combine or acquire assets to create value and maximize the existing owners' wealth as the argument stresses. Pazarskis *et al*. (2010) argue that M&A is one of the devices by which companies gain access to fresh resources through resource redistribution, enlarged incomes and reduced cost. Jorgenson and Jorgenson (2010) also give the opinion that M&A is the part of business plan, business finance and management dealing with buying, selling and the combination of another firm that can help finance or aid a potential firm in a given industry to rise fast without having to create additional entity. This paper accepts the basic idea of M&A as planned choices via which companies join or obtain possessions to form one larger organization given the complexity of the concept (Poposki, 2007; Obaid, Sabeeh and Abid, 2010; Usman, *et al.*, 2010; and Alao, 2010).

M&A is important to safeguard recapitalization of MFIs to ensure their development and existence in Ghana. Capitalization plays a major role when it comes to reforms in the banking industry, the reason being that, banks with strong capital base has the capability to absorb losses emerging from non-performing liabilities (NPL). Reaching capitalization prerequisite is achieved via consolidation, convergence as well as the capital market. Thus, banking reforms are basically determined by the need to reach the goals of consolidation, competition and convergence (Deccan, 2004). They are encouraged to combine in view of the low financial base of the MFIs in Ghana. To a great degree, the proposition of consolidation (merger and acquisition) is founded on the likelihood of benefits resulting from expenses reductions, increased market power, reduced earnings volatility and encourages economies of scale. In theory, merger is expected to improve worth by raising the level of bank change by either broadening the geographic reach of an institution or increasing the breadth of the products and service offered. Furthermore, the modest adding of newly attained possessions and deposits are anticipated to enable change by increasing the number of bank customers. Larger change provides values by steadying earnings while lower volatility may raise owner wealth in several ways. First, the expected value of liquidation costs may be reduced. Second, if companies encounter a curved tax schedule, then anticipated taxes paid may fall, thereby raising anticipated net income. Third, receiving from lines of business as a result of customers' value for bank steadiness could also require more patronage.

To a degree, Guo and Petmezas (2012) find with UK data that corporate acquisitions are the effect of good performance rather than the cause. Nevertheless, the results also suggest that acquisitions also determine performance. The mixed and overall evidence suggests that acquisition returns cannot be exclusively founded on the market ambitious description. This backs the classification of M&A motives broadly into financial and non-financial by Poposki (2007). The financial motive is the company's wish to attain danger decrease while keeping its rate of return; it is also a wish to seize the enhanced financing position that a merger can create as a consequence of growth in size and the tax loss-carry-forward that might be obtainable in a merger. The desire to expand management and marketing capabilities as well as the acquisition of new products includes the non-financial motives for mergers. The superseding significance of the previous over the later may be suggested from Glezakos, Mylonakis and Kafouros (2012) discoveries that growing explanatory controls of accounting parameter is becoming stronger with time, in increasing number of countries. The extent to which

M&A banks are able to fulfill their financial purpose of risk reduction and at the same time improving their financing positions is concerned with this dissertation.

M&A may well be autonomous choices of companies with joining planned needs combining to take benefit of synergistic corporate development. On the other hand, it may well rise from a mixture of shocks which the plan enables the business to restructure. At given periods of time, shock waves explain why M&A activities are high or low. Neo classical and behavioral models explains the major causes of M&A shocks waves. M&A activities result from a country's economic, regulatory and technological environment suggested by the neoclassical model (Mitchell and Mulherin, 1996). On the other hand, the behavioural model proposes that periods of shock wave activities are connected with high market valuations when rational managers take advantage of steady pricing errors in the market to buy real assets with overvalued stocks (Shleifer and Vishny, 2003, Rhodes-Kropf and Viswanathan, 2004). For that reason, the M&A waves in the Nigerian banking sector, which was a reply to shocks sparked by CBN directive to increase share capital to N25 billion within 18 months, may well be sited as one with a regulatory motive.

Two models in Harford's (2005:529) observation points to converge that, "whether the shock leads to a wave of mergers, however, depends on sufficiency of liquidity in the capital market." In other words, M&A shock waves are driven by the sufficiency of liquidity in the capital market. Marks (2003) recognize a booming economy as an influence in the growth of M&A. This conjecture is supported by strong empirical evidence in developing economies. Deb and Mukherjee's (2008) empirical results of data from India are in line with the supply leading hypothesis which conjectures that there is a strong causal flow from the stock market development to economic growth. Between real market capitalization ratio and economic growth is a bi-directional causal relationship observed. In another study, data from Pakistan produced the same results (Shahbaz *et al*., 2008). Ujunwa and Salami (2011) also show that stock market size and turnover ratios are positive in clearing up economic development in Nigeria. It tracks, for that reason that the state of capital market matters for the success of M&A. Although a number of factors such as development in the economy and possible legislative changes could spark off a wave of M&A, Ginsburg and Levin (1989) closed that the market is the force that energies the plan to success. All these points to the fact that, when the underlying currents of M&As are not maintained by market forces, it is destined to have difficulties of value creation or even existence.

Numerous M&As never completely accomplish their conceivable benefits in light of the fact that certain key issues are overlooked. One of the key levers that can influence the achievement or disappointment of a corporate joining activity is 'speed', which discusses the feeling of desperation (not flurry) that must escort the reconciliation (DiGeorgio, 2002). One of the aftereffects of rushed corporate blends is told in an investigation of arbitrage in M&A which discusses Bakera and Sava-soglub's (2002) model of danger arbitrage. The study records that arbitrageurs' danger bearing capacity is restrained by arrangement achievement danger and the objective size of the organizations included. It takes adequate period to grasp what the newly formed unit will look like and after that put a regulatory group set up that is both unyielding and line up as it aides the associations, practices, and individuals to the known dream.

It is along these lines an embellishment to express that, the expected Ghanaian microfinance division change workout is an extreme picture of merger and procurement. The thought process being that, the significant arrangement of avoiding the sledge mallet of the Bank of Ghana (ought to the GH¢ 1 million capital base not met) would be for the MFIs in Ghana to rapidly pool their assets together to meet the book estimation of the base capital base. Since the significance of any adjustment is to realize bigger profitability to the business as well as their aids to financial development of the country, then it got to be crucial to bring a critical inquiry up in this study about whether union activity (merger and securing) could help in sparing numerous MFIs in the nation. Pautler (2001) proposed that the value pick up that claimed to gather to the bigger and developing influx of merger and procurement action has not been confirmed. The reception of money related changes has frequently been put off turned around soon after being executed or somewhat actualized because of a paranoid fear of recessionary outcome. In backing of this announcement, it is a known actuality that, the pain in the microfinance part is a difficult issue or issue that is making numerous natives lost enthusiasm for the division without the administrative powers having the intensity to address it

2.5.1 Types of Merger and Acquisition

Three main kinds of M&As are employed by varying corporate plans. These are classified under straight (horizontal), lateral (vertical) and corporation. Every one of the kind of M&A have traits at the onset (Ross *et al*., 2003). Straight Mergers proceeds when 2 or more rivalries are working or dealing in the same business. Gaughan (2002:8) argues that, “if a horizontal merger causes the combined firm to experience an increase in the market power that will have an anticompetitive effect, the merger may be opposed on antitrust ground". Furthermore, to gain strength in the market, the straight (horizontal) merger yields wave impact when 2 small-scale enterprises pull resources together to acquire advantage in the market (Ross *et al*., 2003). In Ghana, the most prevalent form of mergers is the straight type. The Ghanaian financial area has observed numerous circles of straight mergers amongst financial institutions.

Nonetheless, a lateral merger denotes the enlargement of enterprise stimulated either through mergers among 2 companies playing part role in the succeeding phases of the manufacturing procedures or via enterprises expanding their personal lateral activities (Lipczynski & Wilson, 2004). Companies opt for a lateral merger to obtain efficacy in the supply chain of the activities of the business and to enhance productivity status through the influence of economies of scale. For instance, the merger among hotelier and tour operative are put in the category of lateral merger. For instance is Netscape was bought for $4.21 billion in 1998 from the America Online's (AOL's).

2.5.2 Rationale for Acquisition and Mergers of Banks

Suggestion from huge volume of researches steered on M&As is that it is the utmost extensively employed tactical choice employed by enterprises for the drive of growth. Irrespective of the fact that varying enterprises possess varying motives for involving in M&As, the key motive is to make stockholder's worth far greater than the combination of 2separate enterprises (Sudarsanam, 2005). M&As is a tactical mode for accomplishing bearable advantage in business (Prakash & Balakrishna 2006), nevertheless Prakash and Balakrishna (2006) suggested that the earnings to be obtained from Mergers and Acquisitions have progressively emerge as reliant on the fruitful amalgamation of philosophies of the uniting companies and staff, the function of human elements in defining merger results has reached higher importance.

The studies of Humphrey *et al*. (2006) suggested that the sectors alliance happened chiefly due to technological innovation and monetary reasons that transformed the optimum productive roles of enterprises in the banking sector. The empowering energy was an upsurge of deregulations related to funding that was essential for institutions in the financial sector to grab the opportunity of the fresh manufacturing procedures and technological progression transformed back-office dispensation, front-office distribution schemes, and disbursements schemes. Sergio and Olalla (2008) revealed that deregulation in the financial sector and technological advancement has a crucial function in the procedures of M&As in the financial segment throughout the time frame of 1995-2001. The researchers concluded that the features of European banking companies and size are crucial elements in M&As. DeYoung, Evanoff and Molyneux (2009) suggested that transformations in deregulation permitted financial institutions to broaden via M&As into environmental marketplaces and produce marketplaces. Calipha, Tarba and Brock (2011) examined the success elements and motives of M & As including entrée into a fresh market, obtaining fresh limited resources, accomplishing collaborations and related decision-making and institutional elements viz. comparative scope of M&A stakeholders, administrative participation, philosophy and institutional physical matters etc. Based on numerous researches in the financial area, several bases for M & As have been stipulated. Particular recognized motives are market headship (Willeson *et al*., 2006), expansion and divergence (Sergio & Olalla, 2008), collaboration, danger, economies of scale (Deyoung *et al*., 2009), economies of boundary and collaboration tactically (Calipha *et al*., 2011).Cooperation has been labeled as the joint ventures have a worth that is higher than the combination of the worth of the individual enterprises (DePamphilips, 2011). Synergy may come about through operative, administrative and financial modes (Ross *et al*, 2003a). "Operational cooperative energy can be clarified as the mix of economies of scale, which would diminish normal expenses as a consequence of more productive utilization of assets, and economies of degree, which would help organizations convey more from the same measure of inputs" (DePamphilips, 2011:4). "Money related collaboration alludes to the effects of mergers and acquisitions on the expense of capital of the procuring firm or the recently shaped firm coming about because of a merger or obtaining" (DePamphilips, 2011). The united undertakings would be fit for diminishing capital cost and enhance purchasing force.

According to Ross *et al*. (2003b, 776), an essential explanation behind a merger or obtaining is that the joined firm may create more noteworthy incomes than two different firms. Companies further involve in M&As for the purposes of tax subventions. Numerous avenues are available for firms to lesser their tax burden including M&A action. In numerous circumstances, a nation and its company sector inspire enterprises choosing for unification by stating a relatively supple tax degree scheme. Certain enterprises opt to unite with other enterprises that are functioning within the frame of operative losses. The united enterprises would attract lesser tax liabilities relative to two enterprises operating as individual units. In additional circumstance, the phase of acquisition ensures improvement in assets somewhat than shares. The improvement of asset through tax subventions would be a benefit to enterprises (Ross *et al*., 2003d; Motis, 2007).

2.6 Empirical literature on M & As and Firms Performance

On the basis of business performance, corporate mergers and acquisitions have since quite a while ago got a ton of thought from the corporate world, people in general and additionally the scholarly world. Numerous organizations over the world have been considering M&A techniques to acknowledge cost cooperative energies against expanded rivalry, evaluating weights, crevices in item blend and resource fixation (Hoang, Thuy Vu NgaLapumnuaypon, Kamolrat, 2007), and it is therefore time that the microfinance sector in Ghana re-strategized in their quest for competitiveness, growth and survival in the banking sector. The point of mergers and acquisitions (M&A) has been progressively explored in the writing in the most recent two decades (Appelbaum *et al*., 2007) in light of the ascent in M&A exercises and additionally the expanding many-sided quality of such exchanges themselves (Gaughan, 2002).

Various studies have experimentally inspected whether mergers and obtaining are answers for bank issues. The experimental writing breaking down the impacts of mergers and acquisitions on bank execution takes after two noteworthy methodologies. The principal real approach takes after the occasion study sort strategy, which is normally taking into account changes jumping out at stock costs around the time of the declaration of a merger (Campa & Hernando 2005; Alexandridis *et al*., 2010; Antonio *et al*., 2008). These studies look at the impact of a bank merger declaration on the formation of shareholder's worth and the effect on the objective, the bidder, or the consolidated new element.

The second component of the writing, the operational execution methodology, contains studies that evaluate the connection in the middle of mergers and acquisitions and the gainful effectiveness of the banks included, either measured through bookkeeping information or through the estimation of expense and benefit capacities. The expanded enthusiasm for expense cutting and productivity in the keeping money industry, especially through mergers and acquisitions, has rendered this methodology appealing. Berger *et al*. (1999) demonstrated that mergers and acquisitions may prompt changes in proficiency, business sector power, economies of scale and extension, accessibility of administrations to clients and installment frameworks productivity. Other than change in expense and benefit productivity, mergers and acquisitions might likewise prompt higher benefits. Daley and Matthews (2009), investigate the connections between bank proficiency assessments utilizing bookkeeping proportions and non-parametric DEA on account of Jamaican banks. Their discoveries propose leverage for the DEA.

Ben Naceur and Kandil (2009) mulled over the effect of capital prerequisites on banks' expense of intermediation and execution in Egypt. The consequences of the study upheld Egypt's Central Bank endeavors to authorize capital regulations starting 1991 towards enhancing the execution of the keeping money division in Egypt. Calomiris and Karenski (1996), De-Nicolo (2003), and Caprion (1999) proposed that mergers and acquisitions in the monetary framework could affect decidedly on the effectiveness of most banks. Akhavein *et al*. (1997) broke down changes in gainfulness experienced in the same arrangement of vast mergers as inspected by Berger and Humphrey (1992). They found that saving money associations altogether enhanced their benefit proficiency positioning after mergers. De Young *et al*. (2009) do find that when both the acquirer and target were poor entertainers, mergers brought about enhanced expense proficiency. Joshua (2010) found that the post-merger and acquisitions period was more monetarily proficient than the pre-merger and acquisitions period. Olagunju and Obademi, (2012) additionally found that there is critical relationship in the middle of pre and post mergers and acquisitions capital base of business banks and level of gainfulness. Elumide, (2010) likewise concurred that mergers and acquisitions had enhanced aggressiveness and effectiveness of the acquiring and giving operations of Nigeria saving money industry. As per Pilloff and Santomero (1997), there is minimal observational proof of mergers accomplishing development or other imperative execution picks up. Their discoveries undermine a noteworthy basis for mergers and subsequently raised uncertainty about different advantages mergers and acquisitions may give to organizations.

Additionally, Uchendu (2005) and Kama (2007) opined that, the bank combination which occurred in Malaysia encouraged banks development which prompted development. In a related investigation of the Chilean keeping money industry, Kwan (2002) found that the high rate of financial exercises experienced in Chile was for the most part from efficiency's change from the huge banks framed as a consequence of mergers and acquisitions. The studies by Berger and Mester (1997) and Stiroh (2002) utilizing information on United States banks proposed that, there may be more generous scale productivity from bigger sizes of banks as an aftereffect of mergers and acquisitions. Be that as it may, for Straub (2007), mergers and acquisitions have regularly neglected to add altogether to the execution of the managing an account division.

Soludo (2004) opined that, the Central Bank of Nigerian (CBN) decides to start the Nigerian keeping money division changes process with the union and recapitalization approach through mergers and acquisitions. This is done keeping in mind the end goal to capture frameworks rot, rebuilding of open certainty, building of solid, capable and aggressive players in the worldwide enclosure, guaranteeing life span and higher comes back to financial specialists. These and some more, go about as a spring board to accomplishing enhanced and improved proficiency and monetary execution. There was presence of eighty-nine (89) banks in the urban focus as at June, 2004, portrayed by basic and operational shortcoming of low capital base, strength of a couple banks bankruptcy and illiquidity over reliance on open part stores and remote trade exchanging.

In conclusion, though is a barrage of empirical evidence to suggest that mergers and acquisitions do not necessary lead to the performance of firms, there are also enormous literatures that support mergers and acquisitions as solutions to the enormous economic problems of firms including MFIs and hence the necessity of this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview of Methodology

This chapter of the study takes a looks at methodologies used in the study. The part talks about the exploration plan, the population of the study and the example and the method of data analysis. The chapter further layouts the purposes behind the reception of the contextual analysis technique. It further gives an outline of the information buildup procedures utilized for the theory, and additionally the methods used to break down the information. The last segment of the section talks about the legitimacy and dependability issues that upgrade the quality standard of the examination.

The study adopts both quantitative and qualitative approach to study. For the quantitative approach to the study, it involves mathematical calculation through the adoption of financial performance metrics. The targeted population for this research comprises all tier 2 microfinance institutions (MFIs) in the Kumasi metropolitan area of Ashanti Region, Ghana. From the regional office of the Bank of Ghana in the Kumasi metropolis, a list of 44 provisionally approved tier 2 MFIs as at September 2014 was obtained. From the total population of 44 tier 2 MFIs, the appropriate sample size calculated and chosen for the study was 40 MFIs in the Kumasi metropolis. The appropriateness of this sample size is justified by the deVaus (2002) sample size proportion formula approach. The data collection instruments that will be employed are questionnaires, annual reports and financial statements on record and data from the Micro-financial sector in the Kumasi metropolis. The secondary data from the annual reports and financial statements will be taken from sampled 15 MFIs, over a ten year period (from 2004-2013). To maximize the reliability and validity of the questionnaire, questions generated for the interview will be pretested on a sample of 10 professionals in the banking sector in Sunyani. The collated data will be analysed using statistical tools such as Kendall's Rank test and Relative Importance Index (IRR) and descriptive tools.

3.2 Research Design

Polit *et al*. (2001:12) claims that the research design is "the general strategy for employed by the study so as to achieve the objectives of the study." The research design shows the steps which will be followed in conducting the research. The current study employs the mixed approach. The quantitative research design shows the relationship between data and observation through measurement from the secondary data obtained while qualitative research design was characterised by questionnaire and observations. It is emphasized that quantitative and qualitative research can be combined in a way that one can cover the weaknesses of the other and hence their adoption. Additionally, the study adopted a case study approach to explore merger and acquisition as survival strategy for MFIs in the Kumasi Metropolis. A case study is "an experimental enquiry that explores a contemporary wonder inside of its genuine setting, particularly when the limits in the middle of marvel and connection are not plainly clear' and it 'depends on numerous wellsprings of proof" (Yin, 1994:17).

3.3 Population of the Study

Saunders *et al*. (2009:101) indicates that "a population is a group of individuals, persons, objects, or items from which samples are taken for measurement."All the group of persons or items about which the study desires to gather information on is termed as the target population. To undertake a significant study, there is the need to be precise with regard to the sample size and the setting of your targeted population. Based on this, the targeted population for this research comprised all tier 2 microfinance institutions (MFIs) in the Kumasi metropolitan area of Ashanti Region, Ghana. From the regional office of the Bank of Ghana in the Kumasi metropolis, a list of 44 provisionally approved tier 2 MFIs as at September 2014 was obtained.

3.4 Sample Size and Sampling Techniques

A respondent, preferably the heads of the entire 44 tier 2 MFIs were sampled for the study. Theheads of the Accounts and Finance Departments of the Savings and Loans Companies were targeted because of their position as major decision takers in the financial direction of the institutions. The designed structured questionnaires were therefore administered to all heads of the MFIs in the Kumasi metropolis that were willing to provide the necessary information to assist in the conduct of the research.

The researcher utilizes therefore employed purposive non-probabilistic procedure. All the tier 2 MFIs that were willing to grant the permission for the conduct of the study with them were sampled for the study. The MFIs were given a prior notice of the researchers' intention to conduct a survey interview with them in an agreed time. A single questionnaire was developed and administered to the heads of the Accounts and Finance Departments of the selected MFIs. The questionnaire for the forty (40) sampled MFIs was developed to include close-ended questions with the desire to encompass the various objectives of the study.

However, due to the difficulty of obtaining information regarding financial performance from these MFIs and the limited time period for the research study, the sample size for the secondary data was limited to 15 tier 2 MFIs. Therefore, in all, fifteen (15) MFIs were selected to represent the sample for collecting the secondary data for the study.

3.5 Data Collection

Data collection instruments used were questionnaires, annual reports and financial statements on record and data from the Microfinancial sector in the Kumasi metropolis. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Secondary data was collected from annual reports and financial statements on record as at 31st June 2015. The secondary data from the annual reports and financial statements used for answering the objective 1 was taken from sampled 15 MFIs, over a ten year period (from 2004-2013). The source of this data was obtained from the accounts and finance departments of the sampled MFIs. Data relating to Non-performing Loans and profit were collated and assessed.

3.5.1 Data Collection Instruments

The research relied on questionnaire structured for collecting data for answering objectives2, 3 and 4. The questionnaires was developed and built on closed and open-ended questions. The close ended questions were used to examine the rating of various attributes, helping to reduce the number of related responses in order to obtain more varied responses. The questionnaires were administered on a one-on-one basis with the managers of the accounts and finance departments of the sampled MFIs in the Kumasi metropolis.

The questionnaire was made of three parts: the first part had to do with the respondent's demographic characteristics of participants such as age, sex, educational level, and years of experience in the banking sector, the second part of the questionnaire provides items to determine the operational challenges of MFIs, the third part examined the strategies adopted to ensure survival of MFIs in Kumasi metropolis, and the fourth section provides statements to discuss merging and acquisition as an alternative strategy for MFIs survival in the face of tighter capital rate requirements. All items or statements were measured through a five-point Likert-type scale ranging from 1 (strongly disagree) to 5 (strongly agree).

To make the most of the reliability and validity or otherwise of the questionnaire, questions generated from the interview was initially tested on a sample of 10 professionals in the banking sector in Sunyani. The reliability of the study was ascertained using a Crobach Alpha analysis. The participants were asked to fill out the initial surveys based on their perception of merging and acquisition as plausible strategy for the survival of MFIs in the face of tighter BoG capital rate requirements. The early survey took about 5 to 10 minutes to finish. The pre-test was administered to ensure that the items measured in the study replicated actual interactions and expectations from the MFI managers interviewed. Results from the pre-test analysis showed that the managers of the MFIs viewed some of the items as serving the same purpose and thus some minor changes were done in both the questions and the (wording of) items. All items were kept in the research in order to have contributions on a wider scale to see if these items indeed measured the same constructs from the MFIs managers' point-of-view.

3.5.2 Data Collection Procedure

The administration of questionnaires started by informing the various managers of the sampled MFIs in the Kumasi Metropolis on the 1st day of March, 2015, prior to the main one-on-one interviews. Per the response received on the 5th of March, 2015, two months were granted for the administration of the questionnaire to all the sampled MFIs selected for the study. The administration of the questionnaires was intended to take less than 15 minutes with each respondent. The researcher employed the services of a well vest enumerator to assist in the administration of the questionnaires in order to save time and reduce the level of inconvenience to the MFIs. The questionnaires were administered to the heads of the Accounts and Finance Departments of the sampled MFIs in the Kumasi metropolis in two months. Between 1^{st} April, 2015 and 5^{th} June, 2015; the first batch of the questionnaires were administered to 10 of the sampled MFIs. In the ensuing days of 1^{st} May to June 5^{th}, the second batch of questionnaires was also administered to 5 sampled MFIs.

3.5.3 Data Preparation, Collation and Processing

As put by Miles and Huberman (1994:56), "distinguishing and merging information and then replicating on that information is 'the stuff examination'." According to Bryman and Bell (2007), this stage in the qualitative investigation procedure characteristically includes allocating inferential and descriptive tags to the information. Based on the study of Miles and Huberman (1994), the analysis of information for this study began with an initial set of tags reliant on the constructed frame, the objectives of the study and the stipulated questions of the research, and the critical variables clear from the reviewed literature. The procedure of reentering the information was employed, where the information were persistently re-evaluated and re-scanned as suggested by Robson and Hedges (1993). The researcher was then able to refine and revise the codes as the analysis progressed. Some tags became redundant and were removed, whereas some eventually showed significant to be encompassed in the research. The tagged information on replies were inputted into the computer based programme, Statistical Package for Social Sciences (SPSS), version 17 for display and examination. The software produced statistics, occurrences, proportions and tables to show outcomes of the data analysis.

However, for the secondary data obtained via the financial reports and statements of the sampled MFIs, computations of the various constructs and variables for the regression model was carried out with the aid of the Microsoft Excel Version 2010.

3.6 Method of Data Analysis

The collated primary data was processed and analysed using the Statistical Software Programme for Social Sciences (SPSS version 17), whereas the secondary data with regards to the profitability of the MFIs was analysed using Microsoft-Excel version 2010. The objectives2, 3 and 4 of this study were analysed descriptively. The descriptive analysis conducted involved the use of tabular analysis (percentages and frequencies), and mean values for discussing the key variables involved in the study. Financial ratios were used to analyse the objective 1 of the study. The objective 2 of the study, the operational challenges of MFIs were ranked with the aid of the Kendall's rank test analysis. Kendall's coefficient of concordance (W) is a measure of the agreement among several (p) judges who are assessing a given set of n objects. In this study, the judges were the various heads of the Accounts and Finance Departments of the sampled MFIs assessing the various perceived operational challenges of MFIs. The W statistic was obtained from the formulas below:

$$W = \frac{12S}{p^2(n^3 - n) - pT}$$

Where n is the number of objects, p the number of judges. T is a correction factor for tied ranks (Siegel 1956, p. 234). It was estimated with the aid of the non-parametric test of K-related sample which gave the various mean rank values attached to the perceived reasons. It also provided the Kendall's W, which is their agreement level and the associated p-value. The significance of the P-value indicates that the judges are in concordance or agreement.

3.7 Data Validity and Reliability

The reliability of a research instrument were tested through the conduct of the reliability analysis of both the pre-test and the post-test constructs.. Both reliability tests were conducted and analyzed using the Cronbach's alpha. The reliability of the major constructs of the questionnaire when tested, gave Cronbach alpha value of 0.8756.

According to Allen and Yen (1979: 16) the validity of a study is defined as "the extent to which the tool measures what it purports to measure." After the pilot study, content validity of the study was further examined through the seeking of expert opinion on the structure and the constructs of the study.

3.8 Ethical Consideration

De Vos (1998) describes ethics as ' a set of ethical philosophies that is proposed by a person or team, is consequently extensively acknowledged and which offers guidelines and behavioural expectations concerning the most correct behavior in investigational themes and participants, staff, promoters, other academicians, helpers and students'. Ethical issues measured in this research comprise the institution's right and methodical sincerity on the part of the student. The purpose of embarking on the research was to generate knowledge through honest conduct, reporting and publication of a research report. The researcher is conscious that data should not be forged nor manipulated in order to preserve the quality of the research and of the report (Burns & Grove, 1993). To accomplish this, a written consent was obtained from the appropriate authorities of the sampled branches of the micro financial institutions, notifying them of the aim and design of the research. The study further revealed to the participants of the study that it was virtuously required to mollify a theoretical obligation. Confidentiality was observed in a sense the names of the participants were not required in the questionnaire.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULT

This chapter presents and discusses the result of the study in an attempt to address the exact objectives of the study. The major areas the chapter discusses include respondent's background, the profiles of the surveyed MFIs, the operational challenges of MFIs, the survival strategies of MFIs, merging and acquisition as an alternative strategy for MFIs survival, perceived reasons for M&As as surviving strategy, perceived critical success factors of M&As and the perceived benefits of MFIs successful mergers and acquisitions. Out of the total 44 tier 2 MFIs in the Kumasi metropolis, 40 respondent to the questionnaires given a response rate of 91%.

4.1 Socio Demographic Characteristics Respondents

This part of the study describes the socio demographic characteristics of the studied respondents from the various MFIs. The major demographic information discussed included gender, age, highest level of education and working experience in the banking sector. The result of the demographic information of the studied managers of the MFIs in the Kumasi metropolis is presented in Table 4.1.

Table 4.1 Socio Demographic Characteristics

Socio Demographics	**Frequency**	**Percent**
Gender		
Male	32	80.0
Female	8	20.0
Age of respondent		
20-25 years	0	0.0
26-30 years	2	5.0
31-36 years	6	15.0
37-40 years	21	52.5
41-50 years	8	20.0
51+ years	3	7.5
Highest level of education		
Diploma	9	22.5
First degree	8	20.0
Master's degree	20	50.0
PhD	0	0.0
Others	2	5.0
Working experience in the banking sector		
1-3 years	2	5.0
4-6 years	5	12.5
7-10 years	21	52.5
11+ years	12	30.0

Source: Field Survey, 2015

The result of table (4.1) showed the majority (80.0%) of the surveyed managers of the MFIs were males, whereas 20.0% were females. This implies that the MFIs in the country are predominantly headed by males. The majority of the surveyed managers were between the age group of 37 and 40 years, whereas 20.0% were also between the age category of 41 and 50 years. Apart from the majority (50.0%) of the surveyed managers possessing a highest education qualification of master's degree, the also have a depth of working experience in the banking sector and this therefore explain their current position in their respective MFIs. The majority (52.5%) of the studied managers have a working experience of 7 to 10 years in the banking sector. The depth knowledge and experience of the respondents in the banking sector implies that they possess the needed acumen to provide the appropriate information for the current study.

4.2 Organisational Profile

The profile of the studied MFIs is deliberated in this segment of the study. The pertinent features of the studied MFIs discussed in the section include type of ownership, years of existence, number of employees and the average size of working capital. The descriptive result of the section is presented in Table 4.2.

Table 4.2: Profile of the Organisation

Organisational Profile	Frequency	Percent
Type of ownership of MFI		
Public shareholders	21	52.5
Family or entrepreneurship	8	20.0
Other firms or business associates	4	10.0
Venture capital firms	0	0.0
One owner only	7	17.5
Years of existence of the MFI		
1 year	0	0.0
2-3 years	2	5.0
4-5 years	6	15.0
6-7 years	26	65.0
8-9 years	4	10.0
10+ years	2	5.0
Number of employees		
0-40	0	0.0
41-50	8	20.0
51+	32	80.0
Average size of working capital		
< GH¢100,000	1	2.5
GH¢100,000-GH¢200,000	21	52.5
GH¢200,001-GH¢400,000	12	30.0
> 400,000	6	15.0

Source: Field Survey, 2015

The result of table (4.2) shows that the majority (52.5%) of the surveyed MFIs are owned by public shareholders, whereas 20.0% are owned by family or entrepreneurs and 17.5% by sole proprietors. The majority of the studied MFIs have been in existence for 6 to 7 years. This implies that the MFI market sprang up in the Kumasi Metropolis in the early parts of 2005. The majority (80.0%) of the surveyed MFIs have more than 50 employees. Therefore, the booming up of the MFI sector served as a major source of employment and hence livelihood of many residents of Kumasi. The average size of working capital of the majority of the surveyed MFIs was between GH¢100,000 and GH¢200,000. However, the average size of working capital of 30.0% of the surveyed MFIs was between GH¢200,001 and GH¢400,000.

4.3 Current Performance of MFIs in the Kumasi Metropolis

The current performance of MFIs in the Kumasi metropolis is discussed in this section of the study. It initially assesses the MFIs Clientele growth, savings and loan growth, and financial performance over three years period (2012-2014). The result of the section is presented in Tables 4.3 and 4.4.

Table 4.3: Client Growth of MFIs (20112-2014)

Performance indicators	2012	2013	2014
Average client size	16,487	15,876	13,889
Average number of Borrowers	7,467	7,128	6,870
Average number of Savers	9,020	8,748	7,019
Average loan size (GH¢)	650	745	786
Average savings (GH¢)	786	752	720
Loans to savings ratio	0.83	0.99	1.10

Source: Field Survey, 2015

The result of Table 4.3 showed that the average client size of MFIs in the Kumasi metropolis in 2012 of 16,487 fell to 15,876 in 2013. The average client size further fell to 13,889 customers of the MFIs in 2014. The cross annual trend analysis of the clientele size of MFIs in the Kumasi metropolis exhibits decreasing trend and this could be attributed to customers decrease in trust in the microfinance sector. The 2013/2014 financial year witnessed high level of panic withdrawals in the microfinance sector leading to the collapse of some of the strong rooted MFIs including Noble Dream Limited and Eden. Unsurprisingly, the average number of borrowers and savers of the MFIs also exhibited decreasing trend over the considered period making the sector in the Kumasi metropolis volatile. The result of the table (4.3) further showed that though the average loan size of the MFIs in the Kumasi metropolis exhibits an increasing trend, average savings exhibits a decreasing trend. This phenomenon could be attributed partly to the decreasing trust and the general weak nature of the Ghanaian economy. The current high rate of inflation in the country implies greater demand for loans and lesser savings since the former is more profitable in an economy experiencing high level of inflation.

4.3.1 Financial Performance of MFIs

This section of the study discusses the financial performance of MFIs in the Kumasi metropolis. The section assesses the profitability, expenses, efficiency, and productivity of the MFIs over three year period. The result of the financial performance of the MFIs is presented in Table 4.4.

Table 4.4: Financial Performance of MFIs (2012-2014)

Financial performance	2012	2013	2014
Profitability			
Return on Assets	2.6%	2.2%	2.0%
Return on Equity	8.4%	7.7%	7.1%
Profit margin	3%	-2%	-4%
Expenses			
Financial Expense/Asset	3.6%	3.7%	4.1%
Efficiency			
Average cost per borrower (GH¢)	110	120	132
Productivity			
Borrowers per loans officers	61	63	65
Borrowers per staff	68	73	77

Source: Field Survey, 2015

The result of Table 4.4 showed that the return on assets of the MFIs in 2012 of 2.6% was relatively lesser than the national average of 3.0%. However, the rate of return on asset in 2012 was relatively better than the 2.2% in 2013 and the 2.0% in 2014. Also, the return on equity of 8.4% in 2012 exhibited decreasing trend over the considered period. It should also be emphasized that the return on equity in 2012 was lower than the national rate of 9.6%. In 2012, the MFIs exhibited positive gross margins but showed negative gross margins of 2% in 2013 and 4% in 2014. It is therefore not surprising that many of the MFIs during those periods of negative profit margins found it extremely difficult to meet withdrawal demands, resulting to panic withdrawals and hence the collapse of many MFIs in Kumasi.

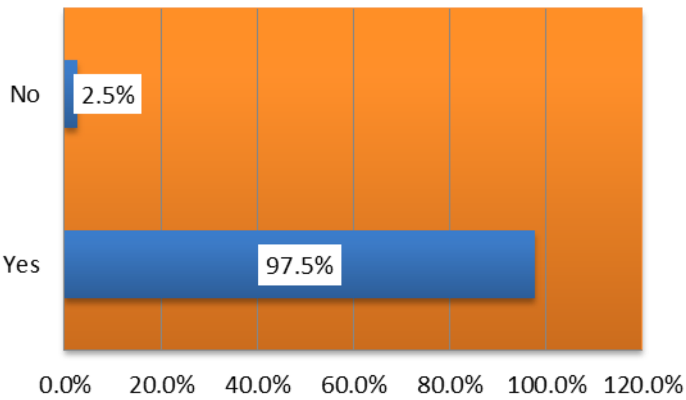
The result of the table (4.4) further showed that the financial expense per asset of the MFIs exhibited a regular increasing trend reaching 4.1% in 2014. The increasing operational cost could be attributed to the overtrading phenomenon of many of the MFIs in the phase of the difficult economic conditions in Ghana. The average cost per borrowers of GH¢110 in 2012 increased to GH¢120 in 2013 and later to GH¢132 in 2014. This therefore provides evidence of decreasing efficiencies in the operations of the MF sector in Kumasi. The result of the table (4.4) showed that the MFIs had 61 borrowers per a loan officer in 2012, a ratio that increased to 63 in 2013 and 65 in 2014. This implies that borrowing was attractive over the considered period and this can be attributed to the high rate of inflation over the period. The borrowers per staff also exhibited a similar increasing trend over the studied period.

4.4 Operational Challenges of MFIs

This section of the study assess whether the surveyed MFIs are confronted by operational challenges. The section further went on to rank the various operational challenges of the surveyed MFIs. For this objective to be achieved, a list of 15 constraints usually reported in the literature as hindering efficient operations of MFIs were given to respondents. The task of each respondent was to indicate their level of agreement to the factors as constraints to efficient operations of MFIs. The table (4.5) displays the mean ranks and by extension, the ranks of the problems as adjudged by the 40 managers of the MFIs in the Kumasi metropolis.

The result of table (4.5) was gotten through the non-parametric test for k-related samples in SPSS 17. The agreement level among the 40 managers of the MFIs was tested using the Kendall's coefficient of concordance since there are three or more judges or managers.

Figure 4.1: Operational Challenges of MFIs



	Yes	No
Encounter Operational Challenges	97.5%	2.5%

Source: Field Survey, 2015

The result of figure (4.1) shows that the majority of the surveyed managers perceive their MFIs to be confronted by numerous challenges in their operations. These challenges explain the current trend of collapse of many MFIs in the Kumasi metropolis including Noble Dream and Eden. Based on this result, it is therefore imperative for MFIs to employ a more fruitful and effective strategies in ensuring their competitiveness and survival in the financial market in Ghana.

Table 4.5: Operational Challenges of MFIs

Operational Challenges	Mean Rank	Rank
Possible panic withdrawals	6.78	1
Inadequacy of working capital	6.53	2
Improper regulations	5.62	3
Inadequate capital contribution	5.10	4
Systematic fraud	4.94	4
High default rate	4.35	6
Risk of a loss of key employees and clients	4.18	7
Uncontrolled growth	4.09	8
Capital base inadequacy	3.89	9
Poor management personnel	3.78	10
Poor assets base	3.65	11
Persistent illiquidity	3.53	12
Unprofitable operations	3.17	13
Inadequate and expensive infrastructure base	2.78	14
High transaction cost	2.10	15
Test Statistics		
N		40
Kendall's W[a]		0.604
Chi-Square (χ^2)		54.709
Degree of Freedom		13
P-Value		0.000
a. Kendall's Coefficient of Concordance		

Rank: [1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree]

Source: Field Survey, 2015

The result of table (4.5) showed that the most pressing operational challenge of the MFIs in the Kumasi metropolis is the possibility of panic withdrawals with mean rank of 6.78. Over-trading among the various MFIs often leaves them relatively less liquid. Therefore any alarm of collapse often leads to panic withdrawals that are often not catered for by the MFIs leading to their collapse. The second and third ranked operational challenges of the MFIs in the Kumasi metropolis are perceived to be inadequacy of working capital and improper regulations with mean ranks of 6.53 and 5.62 respectively. The sprung up of many mushroom MFIs in the metropolis have made it difficult for the MFIs to obtain the needed working capital to sustain their operations. It is on this basis that the Bank of Ghana decided to enact stringent measures or regulations with regards to the minimum capital base requirement for the establishment of MFIs in Ghana. other major operational challenges of the surveyed MFIs include inadequate capital contribution, systematic fraud, high default rate, risk of a loss of key employees and clients, uncontrolled growth, capital base inadequacy, poor management personnel, poor assets base and persistent illiquidity. However, the least three ranked operational challenges of the surveyed MFIs were unprofitable operations, inadequate and expensive infrastructure base and high transaction cost with mean ranks of 3.17, 2.78 and 2.10 respectively. This implies that in the midst of the numerous operational challenges, the MFIs perceive their operations as profitable.

Kendall's coefficient of concordance (W^a), testing the null hypothesis that there is no agreement among the respondents with respect to how constraining the inventory of problems affect the operations of MFIs was rejected at 1% significance level. The degree of unanimity as measured by the W-statistics is about 60% since the score is zero for random ranking and 1 for perfectly unanimous ranking. the surveyed MFI managers can therefore be said to unanimously agree that the most constraining factors to efficient operations of the MFIs are more related first to panic withdrawals and secondly to the inadequacy of working capital.

4.5 Survival Strategies adopted by MFIs

This section of the study discusses the current survival strategies adopted by the numerous MFIs in the Kumasi metropolis. The result of the section is descriptively presented in Table 4.6.

Table 4.6: Surviving Strategies of MFIs

Surviving Strategies of MFIs	Frequency	Percent
Strategy adopted by MFIs		
Internal growth strategy	40	100.0
External growth strategy	0	0.0
Internal strategy employed		
Expansion strategy	21	52.5
Diversification strategy	12	30.0
Technological innovation strategy	7	17.5
External strategy adopted by MFIs		
Acquisition	0	0.0
Merger	0	0.0
Acquisition & Merger	0	0.0
Form of merger & acquisition employed		
Horizontal	0	0.0
Vertical	0	0.0
Conglomerate	0	0.0

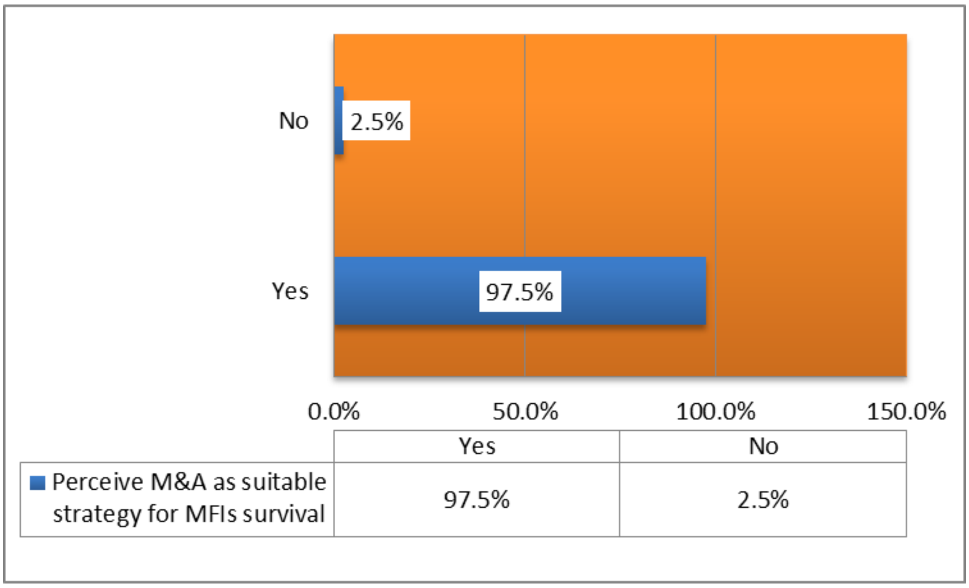
Source: Field Survey, 2015

From Table 4.6, it can be reported that the MFIs in the Kumasi metropolis predominantly rely on internal growth strategies for their growth and survival in the financial market. The reliance on the internal strategies could be attributed to the difficulty in sourcing funds through external means such as the sale of corporate bonds, and mergers and acquisitions. The internal strategy predominantly employed by the majority (52.5%) of the MFIs surveyed is the expansion strategy. The MFIs often engage in ploughing back of profit, increase in sale of existing products and increasing of new products as a mode of expansion. It is this strategy that often leads many of the MFIs to engage in infrastructural development and over-trading that often leaves them less liquid and hence vulnerable to panic withdrawals. There is no single MFI that employs any form of external growth and survival strategies. It is therefore evident that the MFIs in the Kumasi metropolis largely ignore acquisition and merging as a strategy for growth and survival in the financial market.

4.6 Merging and Acquisition as an Alternative Strategy for MFIs Survival

The potential of merging and acquisition as an effective alternative measure for MFIs survival is discussed in this section of the study. This section initially seeks the desire of the MFIs to adopt Acquisition and Mergers, and further ranks the perceived reasons for their desire for Mergers and Acquisition as an effective alternative strategy for MFIs survival. The result of the section is presented in Figure 4.2 and Table 4.7.

Figure 4.2: M&A as an alternative Strategy for MFIs Survival



Source: Field Survey, 2015

The result of figure (4.2) shows that the majority (97.5%) of the MFIs are willing to adopt acquisition and mergers as an effective alternative strategy in the face of the current operational turmoil in the MF sector. Kay (1993) opined that mergers and acquisition often form part of the strategic options expected to transform company performances. This perception of the MFIs is in agreement with the study of Yadav and Kumar (2005) that believes mergers and acquisitions (M&A) are vital medium to enlarge product portfolios, acquire new technology, enter new markets, gain access to research and development, and gain access to resources which would enable the company to compete on a global scale. Moreover, the new regulation of the Bank of Ghana, requiring a minimum capital base of GH¢1,000,000, puts enormous pressure on existing and emerging MFIs to adopt external growth strategies like acquisition and mergers.

4.6.1 Perceived Reasons for M&As as Surviving Strategy

The Table 4.5 ranks the perceived reasons for A&M potential adoption using the Relative Importance Index (RII). The table therefore presents the responses, the weight, the RII and by extension the ranks of the perceived reasons. The RII statistical analysis considers only factors with RII values of 7.00 or more as significantly important.

Table 4.7: Reasons for Considering M&As as Surviving Strategy

Reasons	Responses					RII		
	1	2	3	4	5	Weight	RII	Rank
Meet BoG bank rate regulation	0	0	0	5	35	195	0.975	1
To recapitalize the institutions	0	0	0	8	32	192	0.960	2
Improve customer confidence	0	0	4	8	28	184	0.920	3
Expand the range of business activities	0	2	5	12	21	172	0.860	4
Make the bank more competitive	0	2	8	10	20	168	0.840	5
Increase net asset growth	0	5	8	24	3	145	0.725	6
Improve profit efficiency	0	0	2	8	20	138	0.690	7
Efficiency gain is sparse	2	6	16	9	7	133	0.665	8
Increase in dividends & earning streams	1	7	16	12	4	131	0.655	9
Achieve cost saving	3	5	18	8	6	129	0.645	10
Increase employee productivity	5	18	11	6	0	98	0.490	11
Tax gain purposes	2	27	8	2	1	93	0.465	12

Rank: [1-Strongly Disagree, 2-Disagree, 3-Fairly Agree, 4-Agree And 5-Strongly Agree]

Source: Field Survey, 2015

The result of table (4.7) shows that the MFIs desire to employ mergers and acquisition as an effective alternative strategy for growth and survival is highly dependent on their need to meet BoGs new bank rate regulation with RII of 0.975. Through merger and acquisition, the MFIs could produce the required capital base of GH¢1,000,000. The second and third perceived reasons for the MFIs desire to adopt M&A as surviving strategy is to recapitalize and improve customer confidence with RII values of 0.960 and 0.920 respectively. Consistent with this finding, Pazarskis *et al*. (2010) argue that M&A is one of the mechanisms by which firms gain access to new resources via resource redeployment, increased revenues and reduced cost. Also, Oberg (2008) emphasizes that the customers are important elements of the motives behind M&A and they are rarely seen as actors affecting and being affected by an M&A.

The fourth and fifth ranked perceived reasons for the MFIs desire to adopt M&A as effective alternative strategy for growth and survival are to expand the range of business activities and make the MFIs more competitive. Calipha *et al*. (2011) also suggest that successful M&A could provide avenue for banks to enter new market and gaining new scarce resources and hence become more competitive. Other major perceived reasons for MFIs desire to adopt M&A as growth and survival strategy include increase net asset growth, improve profit efficiency, efficiency gain is sparse, increase in dividends & earning streams and to achieve cost saving. The least ranked perceived reasons as shown by the RII values are to increase employee productivity and gain tax rebates.

4.6.2 Perceived Critical Success Factors of M&As of MFIs

The perceived critical success factors of mergers and acquisition for MFIs are discussed in this section of the study. For the surveyed MFIs, the necessary or key factors that need consideration for a successful adoption of mergers and acquisition as a strategy for growth and survival in the turbulent financial market of Ghana are examined and ranked in this section of the study. Table 4.8 presents the result of the perceived critical success factors for mergers and acquisition adoption as a survival strategy. The perceived critical factors were ranked on the 'likert-scale' of 1(Strongly Disagree) to 5(Strongly Agree). For each factor, the weight was calculated and by extension the RII values and their ranks.

Table 4.8: Perceived Critical Success Factors of M&As of MFIs

Factors	**Responses**					**RII**		
	1	**2**	**3**	**4**	**5**	**Weight**	**RII**	**Rank**
Selection of right partner	0	0	0	12	28	188	0.940	1
Adequate research and planning	0	0	6	10	24	178	0.890	2
Effective and well-coordinated communication	0	2	6	10	22	172	0.860	3
Feedback and corrective mechanism on the M&As programme must be properly elucidated	0	3	5	10	22	171	0.855	4
IT infrastructure of the two companies must be properly aligned	2	4	6	8	20	160	0.800	5
Remuneration, reward and operational issues must be well specified and coordinated	2	5	7	8	18	155	0.775	6
Adequate and objective performance evaluation and reward system	7	8	7	8	10	126	0.630	7
Harmonious labour, social and political relations	6	10	10	6	8	120	0.600	8
Change of management system and culture	15	7	8	5	5	98	0.490	9

Rank: [1-Strongly Disagree, 2-Disagree, 3-Fairly Agree, 4-Agree And 5-Strongly Agree]

Source: Field Survey, 2015

The result of the table (4.8) exhibited that the highest perceived critical factor for a successful adoption of mergers and acquisition among MFIs is the selection of the right partner with RII value of 0.940. That is to say, it is imperative for MFIs to select the right partners in terms of company goals, mission and vision. Selecting the right partners very significant and is based on criteria like credibility, reliability and expertise (Gunu, 2009; Elmuti, 2003). In addition, the selection of right partner will also help decrease the adverse effect of opportunism by parties involved. It is important to get the right people, with requisite knowledge to champion, negotiate, develop, manage and review all the stages of M&As efforts. The culture and identity of the company could possibly be lost through mergers and acquisition and hence the need for the right partner.

The second and third perceived critical success factor of mergers and acquisition of MFIs are adequate research and planning, and effective and well-coordinated communication. These two factors are imperative because a successful merger and acquisition requires a well-coordinated plan and in-depth research into the acumen, direction and activities of the acquirer or the partners. Also, Gunu (2009) stipulates the need for effective and well-coordinated communication among cross-functional, operational and support services, as well as commitment and involvement from the top management for successful M&As adoption.

The fourth, fifth and sixth ranked perceived critical factors of mergers and acquisition as indicated by the surveyed managers of the MFIs were that feedback and corrective mechanism on the M&As programme must be properly elucidated, IT infrastructure of the two companies must be properly aligned and the remuneration, reward and operational issues must be well specified and coordinated respectively. However, the least ranked perceived critical factors for successful adoption of mergers and acquisition as indicated by the surveyed respondents were ensuring a harmonious labour, social and political relations and changing of management system and culture.

4.6.3 Perceived Benefits to MFIs Successful Mergers and Acquisitions

This section of the study examines the perceived benefits of MFIs successful adoption of mergers and acquisition. To achieve this objective, each individual benefit's RII perceived by all respondents was computed for overall analysis. The relative importance index, RII, was computed for each perceived benefit to identify the highest significant benefits. The perceived benefits were ranked based on RII values. From the ranking assigned to each benefit of mergers and acquisitions, the study identified the most important perceived benefits of M&As for MFIs in the Kumasi metropolis. The result of the calculated RII and by extension the ranks of the perceived potential benefits of M&A for MFIs are presented in Table 4.9.

Table 4.9: Perceived Benefits to MFIs Successful Mergers and Acquisitions

Perceived Benefits of M&As	Responses					RII		
	1	**2**	**3**	**4**	**5**	**Weight**	**RII**	**Rank**
Medium to increase capital base	0	0	0	8	32	192	0.960	1
Medium to gain access to larger resources	0	0	1	8	31	190	0.950	2
Achieve cost efficiency	0	0	2	8	30	188	0.940	3
Medium to expand product portfolios	0	0	2	10	28	186	0.930	4
Medium to acquire new technology	0	3	3	8	26	177	0.885	5
Medium to enter new or emerging market	3	2	3	8	24	168	0.840	6
To attain high level of market power	4	5	8	6	17	147	0.735	7
Medium to acquire modern technical skills and knowledge	4	6	5	10	15	146	0.730	8
Achieve customer satisfaction	5	5	7	10	13	141	0.705	9
Aid in paving way for smooth operations	5	6	6	10	13	140	0.700	10
Medium to gain access to research and development	8	5	9	9	9	126	0.630	11
Improved productivity	9	6	9	7	9	121	0.605	12
To achieve financial and technological innovation	10	9	7	5	9	114	0.570	13
To create shareholder's value	13	8	7	3	9	107	0.535	14
Medium to develop new managerial expertise	15	7	8	5	5	98	0.490	15
Medium to compete globally	21	8	6	2	3	78	0.390	16

Rank: [1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree]

Source: Field Survey, 2015

Based on the ranking result of table (4.9), the ten most important potential benefits of mergers and acquisition as perceived by the surveyed managers of the MFIs were: (1) medium to increase capital base (RII = 0.960); (2) medium to gain access to larger resources (RII = 0.950); (3) achieve cost efficiency (RII = 0.940); (4) medium to expand product portfolios (RII = 0.930); (5) medium to acquire new technology (RII = 0.885); (6) medium to enter new or emerging market (RII = 0.840); (7) to attain high level of market power (RII = 0.735); (8) medium to acquire modern technical skills and knowledge (RII = 0.730); (9) achieve customer satisfaction (RII = 0.705); and (10) aid in paving way for smooth operations (RII = 0.700). However, factors such as medium to gain access to research and development, improvement in productivity, achievement of financial and technological innovation, creation of shareholder's value, medium to develop new managerial expertise and medium to compete globally were not regarded as potential benefits of the possible adoption of mergers and acquisition to MFIs in the study area since these factors produced RII value less than 0.700.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter shows a summary of the findings of the study, draws conclusions based on the key findings and also makes recommendations and suggests areas for further research.

5.1 Summary of Findings

The study sought to assess the current performance of MFIs in the Kumasi metropolis, determine the operational challenges of MFIs, examine the strategies adopted to ensure survival of MFIs and discusses merging and acquisition as an alternative strategy for MFIs survival in the Kumasi metropolis. With regard to these earmarked objectives, the findings are discussed in subsections below.

5.1.1 Current performance of MFIs in the Kumasi metropolis

The average clientele size of the MFIs in the Kumasi metropolis has witnessed a decreasing trend over the past three years. The average numbers of borrowers and savers have being exhibiting a decreasing trend since 2012. However, it should be emphasized that the savers and the average savings of the MFIs over the period exceeded the average number of borrowers and loans except for 2014. The period of 2014 exhibits poor performance of the MFIs as the average loan size exceeded savings leading to a loan to savings ratio of 1.10. This is partly attributed to the high inflationary rate, and overtrading during the period.

With regard to financial performance, the profitability and productivity of the MFIs exhibited a worsening trend over the studied period. The microfinancial sectors inefficiency and expenses increased over the period. it is therefore evident that the general performance of the MFIs over the studied period exhibited a worsening trend.

5.1.2 Operational challenges of MFIs in the Kumasi metropolis

Among the several challenges facing the MFIs, the most critical and pressing relates to the probability of panic withdrawal that often emerges through mistrust and insecurity. Other major operational challenges confronting the MFIs are inadequacy of working capital, improper regulations, inadequate capital contribution, systematic fraud, high default rate, risk of a loss of key employees and clients, uncontrolled growth, capital base inadequacy, poor management personnel, poor assets base, and persistent illiquidity in that order of ranking.

5.1.3 Strategies adopted to ensure survival of MFIs

The MFIs predominantly relies on internal growth strategies for survival in the financial sector in Ghana. The MFIs relies on expansionary strategies like ploughing back of profit, increasing the sale of existing products and introducing new products. The MFIs rarely engage in external strategies like acquisition and mergers, and the sale of corporate bonds for growth and survival in the financial market in Ghana.

5.1.4 Merging and acquisition as an alternative strategy for MFIs survival

In the phase of the worsening performance, the MF sector recognizes the need for the adoption of external strategies like acquisitions and mergers for growth and survival. The MFIs perceive these strategies necessary to meet the BoGs new banking rate regulation and to recapitalize the firms. The MFIs further perceive M&As as a viable surviving and growth strategy due to the need to improve customer confidence in the sector, expand the range of business activities, improve MFIs competitiveness, increase net asset growth, improve profit efficiency and many others.

However, the MFIs believe that critical attention should be given to factors such as the Selection of right partner, adequate research and planning, effective and well-coordinated communication, feedback and corrective mechanism on the M&As programme, properly alignment of IT infrastructure of the two companies and remuneration, reward and operational issues must be well specified and coordinated. The MFIs believe the proper adoption of M&As could lead to several benefits including increase in capital base, access to larger resources, cost efficiency and many others.

5.2 Conclusions

The performance of the MFIs over the past three years is very poor leading to the collapse of a number of the MFIs in the sector. The profitability and productivity of the MFI sector in the Kumasi metropolis worsened over the past three years. The poor and worsening performance over the past three years could be partly attributed to the worsening economic conditions in Ghana, overtrading, managerial bankruptcy and the employment of unqualified staff. Major operational challenges that also contributed to the poor and worsening performance of the MFIs in the Kumasi metropolis are panic withdrawals, inadequacy of working capital, improper regulations of the sector, inadequate capital contribution, systematic fraud, high rate of default, loss of key employees and clients, uncontrolled growth and capital base inadequacy. These worsening performance could also be attributed to the over reliance on internal growth strategies for growth and survival.

Therefore, in the phase of this worsening performance over the period, the MFIs perceive the adoption of external strategy such as acquisition and mergers as viable alternative for persistent growth and survival in the financial sector. This strategy is deemed imperative for survival in terms of meeting BoGs banking rate regulation for the MF sector, recapitalise, improve customer confidence and expand the range of business activities. M&A can be a good strategy if properly implemented. The MFIs perceive the success of the adoption of M&As in the MF sector to be reliant on the selection of the right partner, performance of adequate research and planning, effective and well-coordination of communication, feedback and corrective mechanism on M&As programme and proper alignment of IT infrastructure of the two companies. Based on these findings, the study recommends several managerial and policy instruments for a successful and performing MF sector in Ghana.

5.3 Recommendations

For the MFIs to overturn the worsening performance in the financial sector over the past three years, the study makes several imperative managerial and policy recommendations.

5.3.1 Aggressive in financial product marketing

The study recommends that MFIs should be more aggressive in financial products marketing to increase financial efficiency for an improved financial position in term of gross earnings, profit after tax and deposit profile in order to reap the benefit of post mergers and acquisition bid in the Ghanaian financial sector. Hence, every MFI official need to be made a potential marketer, with an understanding that customer enthusiasm and loyalty are founded on a perfect fusion of service delivery and service recovery strategies.

5.3.2 Manpower training and re-training

Manpower training and re-training is a must for all MFIs. Investment in information technology acquisition, deployment and training to reflect a commitment to leverage new technologies for the benefit of every sophisticated client that are getting wiser on daily basis in Ghana need not be over-emphasized. Available high level IT apparatus should be deployed to fashion-out more customer support services in order to improve customer patronage so as to improve the worsening performance.

5.3.3 Adoption of M&As and Corporate Bond Sales

For the MFIs to survive and grow, there is the need to adopt M&As and corporate bond sales external strategies. Through these external strategies, the MFIs could recapitalize and also comfortably meet the BoG capital base requirement. These strategies could also well-equip the financial institutions to prevent any form of panic withdrawal that could be a recipe for collapse.

5.3.4 Proper regulation of the MF sector

There is the need for proper regulation of the Micro-finance sector by the Bank of Ghana to ensure that all MFIs are well-equipped to successfully survive in the environment. The type of staff employed by the sector should be regulated and monitored. An effective capital base requirement regulation should be put in place and well-monitored to ensure security and client confidence. A proper regulation could stiffen and tighten entry and ensure proper growth and rooting of existing MFIs.

5.4 Limitations and areas for further study

The current study is limited to perceptive study because of the non-existence of any form of acquisition and mergers among MFIs in the Kumasi metropolis. Based on this fact, it was extremely difficult to conduct impact analysis of M&As in the MF sector in the Kumasi metropolis. Therefore, after adoption of M&As in the MF sector, an appropriate study should be conducted to compare before and after M&A performance. Positive performance in post-adoption could strengthen the position and the perceptive findings of the current study.

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APPENDIX

QUESTIONNAIRE

MANAGERS OF MFIs

Dear Respondent,

Please read this short survey about the exploration of growth and survival strategies for MFIs in the Kumasi Metropolis. Read each question carefully before responding, and then circle or tick the appropriate answer in the designated space. Please answer to the best of your ability. You are rest assured that the study is for only academic purposes; all and every information provided will therefore be treated with the needed confidentiality. Thank you for your help.

Socio Demographic Data

1. Gender: Male [ ] Female [ ]

2. Age of respondent:

20-25 years [ ] 26-30 [ ] 31-36 [ ] 37-40 [ ] 41-50 [ ] 51+years [ ]

3. Highest level of education:

Diploma [ ] First Degree [ ] Master’s Degree [ ] Doctorate Degree

Others (Please specify)………………………………………….

4. Working experience in the MF sector:

1-3 years [ ] 4-6 years [ ] 7-10 years [ ] 11+ years [ ]

Organisational Profile

5. Type of ownership of MFI

Public Shareholders [ ]

Family or entrepreneurs [ ]

Other firms or business associates [ ]

Venture Capital firms or business angels [ ]

One owner only [ ]

Other (please specify) ………………………………………………………………

6. Years of existence of the MFI

1 years [ ] 2-3 years 4-5 years [ ] 6-7 years [ ] 8-9 years [ ] 10+ years [ ]

7. Number of employees

0-10 [ ] 11-20 [ ] 21-30 [ ] 31-40 [ ] 41-50 [ ] 51+ [ ]

8. Average size of working capital

< GH¢ 100,000 [ ] GH¢ 100,000-GH¢ 200,000 [ ] 200,001-400,000 [ ] > 400,001[ ]

Operational Challenges of MFIs

9. Is your outfit confronted by operational challenges?

Yes [ ] No [ ]

10. If yes to (Question 9), then please indicate your level of agreement to the underlisted factors as operational challenges of your microfinancial institution by choosing from a scale of 1 (strongly disagree) to 5 (strongly agree). (1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree)

Operational Challenges	1	2	3	4	5
Inadequacy of working capital					
Persistent illiquidity					
Unprofitable operations					
Poor assets base					
Possible panic withdrawals					
Inadequate and expensive infrastructure base					
Improper regulations					
High transaction cost					
Capital base inadequacy					
Poor management personnel					
Uncontrolled growth					
Inadequate capital contribution					
Systematic fraud					
High default rate					
Risk of a loss of key employees and clients					

Strategies to Ensure Survival of MFIs

11. What form of strategy is adopted by the financial institution?

Internal growth strategy [ ]

External growth strategy [ ]

12. If internal strategy, what form of internal strategy is employed?

Expansion strategy [ ]

Diversification strategy [ ]

Technological innovation strategy [ ]

Others (please specify)………………………………………………………

13. What is the reason(s) for the adoption of the internal strategy?

…………………………………………………………………………………………

…………………………………………………………………………………………

14. If external strategy, what form of external strategy is adopted by the firm?

Acquisition [ ]

Merger [ ]

Both Acquisition and Merger [ ]

Others (please specify) …………………………………………………..

15. What form of acquisitions or mergers is employed by the firm?

Horizontal [ ]

Vertical [ ]

Conglomerate[ ]

Others (please specify) …………………………………………………..

16. What is the reason(s) for the adoption of the internal strategy?

…………………………………………………………………………………………

…………………………………………………………………………………………

Merging and Acquisition as an Alternative Strategy for MFIs Survival

17. Do you believe mergers and acquisitions can be suitable way for MFIs survival in the face of the new capital base requirement of BoG

Yes [ ] No [ ]

18. If yes to (Question 17), please indicate your level of agreement to the underlisted factors as perceived reasons for the necessity of acquisition and mergers as MFIs surviving strategy by choosing from a scale of 1 (strongly disagree) to 5 (strongly agree). (1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree)

Reasons	1	2	3	4	5
To recapitalize the institutions					
Meet BoG bank rate regulation					
Expand the range of business activities					
Make the bank more competitive					
Achieve cost saving					
Efficiency gain is sparse					
Improve profit efficiency					
Increase employee productivity					
Increase net asset growth					
Improve customer confidence					
Increase in future dividends and earning streams					
tax gain purposes					

19. Please indicate your level of agreement to the underlisted factors as the perceived critical success factors that need to be considered if MFIs are to be successful with mergers and acquisitions by choosing from a scale of 1 (strongly disagree) to 5 (strongly agree). (1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree)

Factors	1	2	3	4	5
Adequate research and planning					
Selection of right partner					
Change of management system and culture					
Effective and well-coordinated communication					
Remuneration, reward and operational issues must be well specified and coordinated					
IT infrastructure of the two companies must be properly aligned					
Harmonious labour, social and political relations					
Adequate and objective performance evaluation and reward system					
Feedback and corrective mechanism on the M&As programme must be properly elucidated					

20. Please indicate your level of agreement to the underlisted factors as perceived benefits to MFIs successful mergers and acquisitions by choosing from a scale of 1 (strongly disagree) to 5 (strongly agree). (1-strongly disagree, 2-disagree, 3-fairly agree, 4-agree and 5-strongly agree)

	1	2	3	4	5
Medium to expand product portfolios					
Medium to enter new or emerging market					
Medium to acquire new technology					
Medium to gain access to research and development					
Medium to gain access to larger resources					
Medium to compete globally					
Medium to acquire modern technical skills and knowledge,					
Medium to develop new managerial expertise,					
Medium to increase capital base					
To create shareholder’s value					
Achieve cost efficiency					
To achieve financial and technological innovation					
Aid in paving way for smooth operations					
Achieve customer satisfaction					
Improved productivity					
To attain high level of market power					