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Impact of Mergers and Acquisitions on Performance of Companies in Oil and Gas Industry

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Abstract
This study investigated the impact of mergers and acquisitions on performance of the companies and analyzed the post merger challenges in the Oil and Gas sector of Nigerian economy. Secondary data on two purposively selected Oil and Gas companies that merged between 1993 and 2010 were used for the analysis. Data were sourced from the Nigerian Stock Exchange fact- book, Annual Report and Accounts of the selected companies and Federal Inland Revenue Services. Results showed that for the first company, the profit after tax had significant effect ($F= 62.238$; $p< 0.05$) likewise the net assets significantly improved ($F=47.540$; $p< 0.05$), following mergers and acquisitions. The results also showed that profit after tax of the related company significantly improved after merger ($F=5.100$; $p<0.05$) along with its net assets ($F=11.471$; $p<0.05$. Hence, the mergers and acquisitions brought about significant improvement on the performance of the companies.
JEL classification numbers:G34
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1 Introduction

Studies have shown that the effect of mergers and acquisitions on performance is mixed whereas companies in some other industries are still merging, most especially Oil and Gas industry Elakama (2004), in a country like Nigeria. This confirms the earlier findings of Ravenscraft and Sherer (1987) when they concluded that many companies were acquired and on average, their profits and market shares declined following acquisition. Agbakoba (2004) lends credence to the arguments of Ravenscraft and Sherer (1987) by saying that putting together two profitable, compatible, well-managed businesses is not enough to create synergy, as there seem to be challenges. In essence, the companies that claim to deliver value and profitability are not up to the merit and in this situation it becomes very crucial for the investors and shareholders to know about the actual image of the happening. Thus, their findings undermine a major rationale for mergers and consequently raise doubt about other benefits that mergers and acquisitions may bring to businesses.

Mergers and acquisitions (more generally, takeovers) are an important means through which companies achieve economies of scale, remove inefficient management, or respond to economic, technological, regulatory shocks. The ultimate goal of a takeover is to realize synergies. In practice, the existence, size and division of synergies are uncertain or unknown Mitchell and Mulherin (1996) and Andrade, Mark and Erik (2001).

Oil and Gas industry plays a crucial role in propelling the entire economy of any nation, of which there is need to reposition it for efficient performance. To make oil sector sound, there is the need for the sector to undergo remarkable changes in terms of structure of ownership, as well as depth and breadth of operations. These changes have been influenced mostly by the challenges posed by deregulation of the upstream and down stream sectors and technological innovations. Similarly, a strong, stable and virile economy depends to a very large extent on efficient and reliable petroleum industry. This explains the frequency with which the sector has witnessed repeated deregulation aimed at fine-tuning it to meet the challenges for economic stability and developmental goals of the nation Porter (1980).

Sequel to the deregulation of Nigeria petroleum sector, the Oil and Gas industry continues to work through challenging times. Oil prices remain volatile, investment and activity levels are uncertain and financial sector is still turbulent. To improve the odds of success in such conditions, Capron (1999) suggests that com mercial oil companies need to focus on the mid to long term and deliver adequate shareholder return, reduce marginal costs, sustain scale and pursue as much as growth they can.

The urge for companies to merge is driven by market and economic growth pressures characterized by new product development, patent expiry, increased regulatory conservatism, increased market exigencies, and the effects of over leverage Coles and Armstrong (2002). According to Porter (1980), integrating two business units is to gain competitive advantage. Merging two businesses is considered one of the most complex strategic moves that companies can make. The acquisition of one firm by another is, of course, an investment made under uncertainty Rose, Westerfield and Jaffe (1996). The reward through merger comes in form of increase in market share, expansion of product lines, financial strength and technical talent Tkachenko and Fiabedzi (2001). According to Anthony (2008), mergers and acquisitions are phenomena of economic realities and a contemporary growth strategy that emphasizes the synergy of resources for maximum profitability. Gort (1969)

argues that mergers are a result of economic differences in industries caused by changes in technology, government regulation, and any other economic change affecting a particular industry.

The potential benefits that companies expect from the activities of mergers mainly consist of economies of large scale production, reduction in tax liability, better utilization of funds to increase profits, diversification of activities for stability and higher profits, achievement of progress and influence in the industry and increased productivity. However, some researchers like Hitt, Robert, Hicheon (1997), have skeptical point of view by saying that companies that are merged or acquired are efficient to pursue their growth even without such corporate activity and their subsequent performance after merger and acquisition may not even improve. To what extent this assertion can be is yet to be proven empirically, especially in the oil gas sector. Hence this study seeks to analyze the impact of merger and acquisition on performance of oil and gas industry.

Historical Background of Mergers and Acquisitions

Mergers and acquisitions are a global business terms used in achieving business growth and survival. Merger entails the coming together of two or more firms to become one big firm while acquisition is the takeover or purchase of a small firm by a big firm; which are both pursuing similar motives Toledo (2004). The concept of mergers and acquisitions came into focus in Nigeria as a result of the country's dampen economic fortunes brought about by the various austerity and restructuring programmes implemented by the government for the sake of good governance. In addition to this was the global economic meltdown which has compelled individuals and corporate bodies to embark on various restructuring programmes and diversification operations as regards their businesses so as to ensure survival, growth and soundness of the economy Walter and Uche (2005). In Nigeria, there were mergers and acquisitions deals in the manufacturing, pharmaceutical, banking and oil industries. For example mergers occurred between Lever Brothers (Nig.) Plc and Chesebrough Products Industries Ltd; Lipton (Nig.) Ltd, Sterling Products and SmithKline Beecham. Nigerian Industrial Development Bank (NIDB) and National Economic Recovery Fund (NERFUND), Unipetrol (Nig.) Plc and Agip (Nig.) Plc, Elf (Nig.) Ltd. and Total (Nig.) Plc. Mergers also occur between Exxon/Mobil, Total/Petrolfina, Chevron/Texaco, Glaxo Wellcome and SmithKline Beecham to mention but a few.

Mergers and Acquisitions is not peculiar to Nigeria only as mergers occurred extensively in the United States and United Kingdom at the turn of the century which transformed many industries, formerly composed of very small and medium firms into those in which one or few very large enterprises occupied the leading position. Mergers have played a central role in determining the level of concentration and the amount of competition in many industries of the world. Merger activity has also been instrumental in determining the relative size and diversification of many large corporations and has left an indelible mark on the structure of the world economy. Historical data on merger activity are incomplete, but sufficient information is available to provide valuable insights concerning merger movements.

Methodology

The population for the study covered quoted oil companies involved in mergers and acquisitions between the year 1993 and 2010. Purposive sampling technique was employed to select a sample for the study. These were Unipetrol Nigeria Plc; Agip Nigeria Plc; Total Nigeria Plc and Elf Limited. However, data on Total and Elf were eventually analyzed because of internal consistency. The study employed secondary data sourced from Nigeria Stock Exchange (NSE) fact-book, Federal Inland Revenue Services (FIRS) and annual reports and accounts of selected oil companies for the period of the study.

In evaluating the performance of the target and the acquiring company before and after merger, the gross earnings, profits after tax and net assets are the relevant variables that could be used. Gross earnings are the earnings before the deduction of expenses and tax. Profits after tax is the difference between the total cost of providing goods or services and the revenue derived from their sale. When taxation is deducted from profit, the remainder is profit after tax. Revenue is obtained when the selling price per unit of a product is multiplied by the quantity of goods sold of that commodity or rate per hour multiplied by the effective hours worked. Data were analyzed with the aid of the descriptive statistics such as mean, median and standard deviation and inferential statistics such as Analysis of Variance (ANOVA).

Results and Discussion

The following present the descriptive analysis of the mean and standard deviation of the performances of the sampled companies before and after merger in terms of gross earnings, profits after tax and net assets. The objective is to determine whether the merger conforms to the theory of synergy which states that when two companies merge the hope is that the result would be more valuable than the total value of its members before merger. This is expressed by this equation: Gain = $V_{AB} - (V_A + V_B)$. The second hypothesis was stated as:

H_o: There is no significant difference in the pre and post mergers and acquisitions periods in terms of gross earnings, profits after tax and net assets of the selected companies.

Table 2 describes the performance of TotalFinaElf Nigeria Plc in terms gross earnings, profits after tax and net assets; after merger while tables 3 and 4 are in respect of the performance of Total (Nig.) Plc and Elf (Nig.) Ltd. before merger**.** The mean gross earning of TotalFinaElf is ₦14,544,154,300.0 while the gross earnings of Total (Nig.) Plc and Elf (Nig.) Ltd. before merger are ₦3,194,951,3800.0 and ₦1,117,746,3800.0 respectively. When the mean gross earnings of the member companies are summed up it becomes ₦4,312,697,760. This is less than the mean gross earnings of TotalFinaElf by ₦10,231,456,540. The analysis reveals that Total Plc looks stronger than Elf Plc and TotalFinaElf is superior to Total Plc. The difference between the two companies prior to merger and subsequent to merger is highly significant and this explains that merger of the two companies is necessary and produces better results in terms of gross earnings. Had the companies not merged, the extra ₦10, 231,456,540 gross earnings would not have been obtained. Therefore, the hypothesis which states that there is no significant difference in the pre and post mergers and acquisitions periods in terms of gross earnings cannot be accepted.

The mean profit after tax of TotalFinaElf is ₦3,366,154,900. whereas the profits after tax of the member companies are ₦884,308,880.0 and ₦107,701,000.0 respectively. When added up it gives ₦992,009,880. This is less than the mean of the combined (TotalFinaElf) company by ₦2,374,145,020. The difference is significant. This shows that if the companies had not strategically come together, the additional profits after tax of ₦2,374,145,020 would not have been made. Therefore, the hypothesis which states that there is no significant difference in the pre and post mergers and acquisitions periods in terms of profits after tax would not be accepted.

The mean net asset of TotalFinaElf is ₦5,476,129,000. The mean of the member companies is presented as ₦1,317,939,250.0 and ₦171,297,880.0 respectively. When summed up it gives ₦1,489,237,130.0 which is less than the mean of the enlarged company by ₦3,986,891,870. The difference in net assets prior to and subsequent to merger is very significant. This implies that the merger arrangement has brought about an improvement in the performance of the merged company in terms of net assets. The analysis also shows that the company would operate successfully provided its gross earnings, profits after tax and net assets are not allowed to fall below the mean level and that the limit of the standard deviation is not exceeded. Where the company deviates from the mean at a level higher than those presented by the table, then it would be working towards closure or liquidation.

Table 2: TotalFinaElf Nigeria Plc (Post Merger)

Variable	Gross earnings ₦'000	Profit after tax ₦'000	Net assets ₦'000
Mean	14,544,154.30	3,366,154.90	5,476,129.00
Median	15,172,798.50	3,017,157.00	494,8786.00
Standard dev.	5,354,712.31	98,8097.67	1854279.37
Minimum	7.430,365.00	2,499,300.00	5,436,638.00
Maximum	21,999,755.00	5,436,638.00	8,929,188.00

Table 3: Total (Nig.) Plc (Pre-Merger)

Variable	Gross earnings ₦'000	Profit after tax ₦'000	Net assets ₦'000
Mean	3,194,951.38	884,308.88	1,317,939.25
Median	2,853,231.50	84,7512.00	1,288,835.00
Standard dev.	1,527,234.32	375,710.81	709,405.31
Minimum	1,007,150.00	345,941.00	427,843.00
Maximum	561,0874.00	1,518,444.00	2,426,739.00

Table 4: Elf (Nig.) Ltd (Pre- Merger)

Variable	GROSS EARNINGS ₦'000	PROFIT AFTER TAX ₦'000	NET ASSETS ₦'000
Mean	1,117,746.38	107,701.00	171,297.88
Median	826,546.50	78,823.00	125,251.50
Standard dev.	859,023.96	73,191.42	136,321.90
Minimum	299,342.00	8,986.00	33,540.00
Maximum	2,859,656.00	225,782.00	430,468.00

Analyses the performance of TotalFinaElf Nigeria Plc in terms gross earnings, profits after tax and net assets; after merger while tables 7 and 8 are in respect of the performances of Total (Nig.) Plc and Elf (Nig.) Ltd. before merger is presented in Table 5. The result shows that the gross earnings probability value is 0.00 and since this is less than 0.05, it implies that, there exists significant difference in the performance of the

merging companies before and after merger periods in terms of gross earnings. Also the Post Hoc Analysis (Table 6) which shows that those companies were operating almost at the same level before the merger but now that they have merged, the enlarged company is significantly different and superior to them in terms of gross earnings. Therefore the merger is successful. Hence, the null hypothesis is rejected and the alternative hypothesis confirmed.

Table 5: TotalFinaElf Nigeria Plc (Gross Earnings)

	Sum of Squares	Df	Mean Square	F	Sig
Between Groups	9.616E14	2	4.808E14	39.559	.000
Within Groups	2.795E14	23	1.215E13		
Total	1.241E15	25			

Table 6: Duncan Multiple Range Test (Post Hoc Test)

COMPANY	N	Subset for alpha=0.05	
		1	2
ELF PLC	8	1.1177E6	
TOTAL PLC	8	3.1950E6	
TOTALFINAELF	10		1.4544E7
Sig.		.230	1.000

Table 7 reveals that the profit after tax probability value is 0.000 which is less than 0.05. This suggests that there exists significant difference in the performance of the merging companies. Therefore the merger is successful in terms of profit after tax. Table 8 is in respect of the Post Hoc Test carried out which shows that Total Nigeria Plc is stronger than Elf Nigeria Limited before merger, while the new company TotalFinaElf is significantly different from both of them. Therefore the merger is successful. Hence, the null hypothesis is rejected and the alternative hypothesis confirmed.

Table 7: ANOVA- TotalFinaElf Nigeria Plc (Profit after Tax)

	Sum of Squares	Df	Mean Square	F	Sig
Between Groups	5.311E13	2	2.655E13	62.238	.000
Within Groups	9.813E12	23	4.266E11		
Total	6.292E13	25			

Source: Survey 2012

Table 8: Duncan Multiple Range Test (Post Hoc Test)

COMPANY	N	Subset for alpha=0.05		
		1	2	3
ELF LTD.	8	107701.0000		
TOTAL PLC	8		884308.8750	
TOTALFINAL ELF	10			3.3662E6
Sig.		1.00	1.000	1.000

Table 9 depicts that the net assets probability value is 0.000 which is less than 0.05. This shows that there is significant difference in the performance of the companies before and after mergers. Table 10 presents the Post Hoc analysis which shows that the performance of Total Nigeria Plc is not significantly different from Elf Nigeria Limited while the TotalFinaElf performance is better than the performance of the member companies after the merger. Hence, the merger between Total Nigeria Plc and Elf Nigeria Limited is successful in terms of net assets. Therefore the null hypothesis is rejected and the alternative hypothesis confirmed.

Table 9: TotalFinaElf Nigeria Plc (Net Assets)

	Sum of Squares	Df	Mean Square	F	Sig
Between Groups	1.430E14	2	7.151E13	47.540	.000
Within Groups	3.460E13	23	1.504E12		
Total	1.776E14	25			

Table 10: Duncan Multiple Range Test (Post Hoc Test)

COMPANY		Subset for alpha=0.05	
	N	1	2
ELF LTD.	8	171297.8750	
TOTAL PLC.	8	1.3179E6	
TOTALFINA ELF	10		5.4761E6
Sig		.065	1.000

Source: Survey 2012

Summary

The findings showed significant performance of merging companies in terms of gross earnings, profits after tax and net assets extracted from the annual reports and accounts of the three selected companies. The results of the hypotheses tested showed that all the selected companies witnessed improved financial performance in terms of profits after tax and net assets as a result of mergers and acquisitions activities. Based on these results it is easy to generalize that merger and acquisition have positive effect on the performance of quoted oil companies.

However, synergies cannot be achieved in a situation where one company imposes its own corporate culture on another.

The empirical studies carried out showed that after merger event the dividend per share, net assets per share, earnings per share, net working capital-net assets of resulting companies increased substantially. However, the net assets per share, price-earnings ratio, and sales-net assets ratio of merged companies dropped after merger. However, it is still impossible to clearly state whether mergers and acquisitions in the oil sector lead to improved performance and efficiency.

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