



THE FINANCIAL MERGING SYSTEM AND ITS IMPACT ON THE INSTITUTIONS' PERFORMANCE IN RWANDA (A case study of MTG Ishema SACCO)

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ABSTRACT

This study aimed at examining the impact of financial merging system on the performance of microfinance institutions in Rwanda. It was carried out in M Mulindi Tea Growers(MTG) Ishema SACCO as the formed institution after merging the MTG SACCO and COOPEC Ishema. The main problem that motivated the researchers to conduct this study was the slow performance of several institutions in Rwanda due to their poor merging system. This research was guided by the following specific objectives: to determine the effectiveness of the financial merging practices in MTG Ishema SACCO; to find out the challenges encountered by MTG Ishema SACCO in its financial merging system, and to analyze the relationship between the financial merging system and the performance of MTG Ishema SACCO.

This research applied descriptive research design with both quantitative and qualitative methods to analyze data. The target population under this study was 14016 individuals composed by employees, directors, and clients of MTG Ishema SACCO. The sample size was 99 respondents selected using the purposive sampling technique. The primary data were collected through the use of questionnaire, interview and observation techniques; while the secondary data were collected through documentation technique. SPSS 16 computer program was used to quantify data from questionnaires.

Therefore, data analysis and presentation show that the impact of financial merging system on the performance of financial institutions especially MTG Ishema SACCO was the increased profitability, improved the customer satisfaction, improved the brand name, increased the liquidity, improved the financial efficiency, increased the solvency, and the increased the repayment capacity. The study concluded that the financial merging system has a great contribution in improving the performance of several institutions in Rwanda. Finally, the study gave the recommendations to different institutions in improving the effectiveness of financial merging system towards the performance.

Keywords: Financial Merging; Financial merging system; Performance; Microfinance institutions.

INTRODUCTION

In the modern global economy, mergers are being increasingly used all over the world for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale among other (Lubatkin, 2007:19). The reasoning behind any corporate merger is that two companies are better than one because they increase shareholder value over and above that of the two separate firms. The motives

behind mergers are economies of scale, increase in market share and revenues, taxation, synergy, geographical and other diversification. In a merger, the acquiring concern will be a corporation and not an individual, and the medium of exchange used to buy control will typically be shares of the acquiring company rather than cash. A merger requires the explicit approval of those already in control of the corporation. In addition, most statutes require more than a simple majority vote by shareholders to effectuate a merger (Weston, Mitchell, & Mulherin, 2004:15).



Financial merging play major roles in shaping activities of enterprises. Once a phenomenon seen primarily in the US, M&As are now taking place in countries throughout the world. Continental Europe has experienced M&A bursts coupled with relative inactivity both domestically and across national borders since the stock market bull run from the recession of 1980- 81, the deregulation of the financial services sector, and development of new financial instruments and markets, labeled the first European merger wave. The first real increase in M&A activity in the UK, on the other hand, can be traced back to the 1920s when the development of mass production techniques created an increase in the vertical integration through scale of production, while the second M&As wave came in the 1960s as a response to the internationalization of the world economy. There was need for M&As to create larger firms that would be capable of being effective in international competition, especially from countries like the US and Japan (Hitt, Ireland, & Hoskisson, 2009:25).

Business amalgamations, Combinations, restructuring, and reorganizations are some of the terms that are associated with mergers. The study of mergers initially concentrated on its effect on a firm's competition. However, with the rapid changes in business operational environment, it has been used for other purposes among firms. Business environment has changed rapidly because of dynamic changes in the global atmosphere forcing organization to change tact if they have to remain competitive. Technological and globalization advances have altered business operating environment, therefore, requiring them to rethink their strategies if they want to remain competitive. The financial efficiency parameters are determined and measured by gross earnings, profit after tax, and net assets (Cartwright & Cooper, 2013:18).

A merger or an acquisition is a strategy that is carefully planned to achieve a synergistic effect. The synergistic effect of mergers and acquisitions includes economies of scale through greater output, avoidance of duplication of facilities and staff services, and stronger financial base. The economic benefits as a reason for pursuing a merger or an acquisition include income enhancement, cost reduction, and growth. Some of the reasons for mergers and acquisitions are to purchase a company having competent management; improve earnings per share, inject fresh ideas for better prospects and enhancement of shareholders' wealth, gain access to the financial market, eliminate duplicate and competing facilities, secure scarce raw materials, diversify into other products or markets or to complete a product range, greater asset backing; and enhance economy of scale and corporate growth (Carney, 2000:30).

There are three major types of mergers and acquisitions. The first one is the horizontal merger, where firms that produce and sell the same product merges. In this case, the merger occurs between two competing firms whose products are viewed by buyers as the same, and therefore their cross elasticity of demand and supply is high. The second type of merger is the vertical merger. This is a merger between firms operating at different stages of production. It happens between

firms that have a successive functional link between their products, i.e. the output of one firm is an input for another firm at a higher stage of production. The third type of merger is the conglomerate merger. This is a merger between firms operating at different stages of production (Beena, 2004:26).

The effect in the profitability is also the result of their cost efficiency along with the revenue generation achieved through synergy. The merged banks have lower costs than non-merged banks because they tend to use the most efficient technology available as well as a cost-minimizing input mix of allocate efficiency, and thus it is positively related to the benefit of economies of scale and scope from merger of small and medium-sized banks. Further, improved performance is the result of both revenue enhancements and cost reduction activities. However, revenue enhancements are most significant in those mergers that also experience reduced costs. The fact that mergers have a significant impact on the performance of banks and many factors such as liquidity, leverage, capital adequacy and size influence this performance (Kemal, 2011:35).

In Rwanda, the institutions have undergone financial merging. Those financial merging have brought about many structural changes in the institutions and have also encouraged different financial institutions to operate their businesses being merged to others. Financial merging system has brought impact on institutions' performance like increase in capital, consolidation of strengths from two institutions, improvement in provision of customer service, decrease in competitions between the two merged companies, economies of scale, more profit enabling more research and development, and struggling firm can benefit from new management.

However, the financial institutions face many challenges in achieving their objectives mainly in socio-economic development of the members of those merged institutions and even of the people around the new institution formed. But due to the growth in the complexity of merging understanding, planning, and implementation, effective strategies become necessary for institutions to remain successful in developing life standard of the members and ensure that goods and services are always available. Accordingly, different institutions in Rwanda face poor performance due to their poor management of merging system as those systems endure from lack of skills and knowledge, some bonds remain outstanding, problem in making the same financial statements, monopoly power, and harder to communicate and coordinate.

Furthermore, there was a limited number of recently studies on the impact of financial merging system on the performance of institutions in Rwanda. Therefore, the researchers conducted this study to examine the impact of financial merging system on the performance of MTG Ishema SACCO during the period of 2021.

METHODOLOGY

This part presents the methodology through which researcher had gone to conduct the study. It highlights the research process researchers have passed through.

Description of the area of the study

MTG Ishema SACCO is a microfinance institution created by Mulindi Tea Company to provide the microfinance services to the members of tea growers' cooperatives working with the Mulindi Tea Company. MTG Ishema SACCO is created in 2021 after merging MTG SACCO and COOPEC Ishema.

The vision of MTG Ishema SACCO is to be the leading microfinance institution in improving the socio-economic development of tea growers in Gicumbi District.

The mission of MTG Ishema SACCO is to increase members' welfare by granting complete the microfinance services as soon as possible to the community of the sector. Also, MTG Ishema SACCO has the mission of contributing to the national development through members' social and economic status.

MTG Ishema SACCO aims:

- To promote saving culture to people;
- To increase equities in order to finance profitable and generating projects enough incomes;
- To facilitate good management and good governance to build a sustainable institution;
- To create partnerships with the financial institutions and organizations with aim of improving the outputs of MTG Ishema SACCO's members.

The core values of MTG Ishema SACCO are the following:

- Equality
- Equity
- Confidentiality
- Integrity
- Accountability

3.2. Research design

A research design is the outline plan, or strategy specifying the procedures, to be used in seeking an answer to the research questions. It specifies such things as how to collect and analysis the data. Thus, it is a framework or a plan for the study used as a guide in collecting and analyzing data. It is a blueprint that is followed in completing a study (Bowling, 2002:17).

Designing this study helped the researchers to plan and implement the study in a way that assisted the research to obtain intended results, by increasing the chances of obtaining information that could be associated with the real situation. Thus, the researchers used the descriptive research design with both quantitative and qualitative methods in data analysis so as to capture the detailed and adequate information. The quantitative method concerned the use of the statistical data; while the qualitative method concerned the use of the non-numerical data. The use of both methods also ensured that the data were effectively interpreted using the frequencies, percentages, as well as the explanations in order to describe the impact of financial merging system on the performance of MTG Ishema SACCO during the financial year of 2021.

Population and sample size

A study population is a totality of persons or objects, which the study is concerned. The term population simply means

possible people from whom information can be obtained. Thus, a population is a complete set of individuals, cases or objects with some common observable characteristics (Grinnel & Williams, 1990:21).

Therefore; in conducting effectively this research, the researchers selected one merged institution that is MTG Ishema SACCO as the study area. The study population was categorized into two strata: one stratum of employees and directors was composed by 16 individuals, and other stratum of clients was composed by 14000 individuals. Thus, the target population under this research was 14016 individuals composed by employees and clients of MTG Ishema SACCO.

Sample size

A sample is simply a subset of the population. The sample must be representative of the population from which it was drawn and it must have good size to warrant statistical analysis. The main function of the sample is to allow the researchers to conduct the study to individuals from the population so that the results of their study can be used to derive conclusions that will apply to the entire population. The number of elements within the sample is called sample size (Bowling, 2002).

In this research; to get the number of respondents, the sample size was determined using the Slovin's formula as follow:

$$n = \frac{N}{1 + Ne^2}$$

Whereby, N is the population size; n is the sample size, e is the standard error at 90% Confidence Interval and e=10%=0.1.

$$n = \frac{14016}{1 + 14016 * (0.1)^2} = 99.2915840181 \approx 99$$

The sample size in this research was **99 respondents**.

Sampling techniques

Sampling is selecting people or objects from a population in order to test the population for something, it is concerned with the selection of a subset of individuals from within a statistical population to estimate characteristics of the whole population (Grinnel & Williams, 1990:21).

In this study, the researchers used the non-probability sampling procedures, particularly census sampling technique and purposive sampling technique to select respondents. Census sampling technique was used in selecting all the staff and directors as the respondents, while the purposive sampling technique was used in selecting some clients as the respondents who could meet the purpose of the study.

Therefore, the census sampling technique was applied to select all 6 staff and 10 directors as the respondents because they had the relevant information about the research. While the purposive sampling technique was applied by the researchers by using their judgments in selecting 83 clients as the respondents. Thus, the table 1 below indicates how the researchers selected 99 respondents in MTG Ishema SACCO who could provide the relevant information on the impact of financial merging system on the performance of MTG Ishema SACCO.

Table 1: Categories of respondents

Respondents category	Population	Sample size	Percentage	Sampling technique
Members of Board (Directors) of MTG Ishema SACCO	10	10	10.1	Census sampling
Staff of MTG Ishema SACCO	6	6	6.1	Census sampling
Clients of MTG Ishema SACCO	14000	83	83.8	Purposive sampling
Total	14016	99	100	

Source: Primary data, July 2021

The above table shows the categories of respondents, whereby 83.8% of the respondents were the clients as SACCO members; 10.1% of the respondents were the directors of SACCO; while 6.1% of the respondents were the employees of SACCO. This implies that all respondents had the relevant information about the impact of financial merging system on the performance of MTG Ishema SACCO.

Data collection methods and techniques

In conducting this study, a variety of instruments were used in collecting data related to the impact of financial merging system on the performance of MTG Ishema SACCO. In this research, data were collected through questionnaire, interview, observation, and documentation techniques. Hence, questionnaire, interview, and observation techniques were used in collecting the primary data, while the documentation technique was used in collecting the secondary data.

Questionnaire

A questionnaire is defined as a set of written questions which are asked to get information from a respondent. It is also currently used to mean a set of questions, which are self-administrated. It consists of a number of questions in a definite order; this method is used for gathering data which require the researcher to prepare questions for specific strata of the population (Kakooza, 1996:25).

Accordingly, the questionnaire was used to collect primary data on the impact of financial merging system on the performance of MTG Ishema SACCO. The questionnaire was composed by both close and open questions to collect quantitative data. Also, the questionnaire was composed by questions relating to the identification of respondents and questions relating to the specific objectives of this research. The questionnaires were written in English and translated in Kinyarwanda to help respondents to understand well the investigated issues. In data collection, self-administrated questionnaires were used. Thus, 99 self-administrated questionnaires were distributed to 99 respondents under this research.

Interview

An interview is a conversation where questions are asked and answers are given. In a common parlance, it refers to a one-on-one conversation with one person acting in the role of interviewer and the other in the role of interviewee. The interviewer (researcher) and interviewee (respondent) engaged in oral questioning or discussion (Dawson, 2002:29).

Hence, the interviews were conducted in collecting the primary data on the impact of financial merging system on the performance of MTG Ishema SACCO. The interview questions were relating to the specific objectives in order to achieve the general objective of this study. In this case, the researchers used unstructured interview guide composed by open questions in order to collect qualitative data on several investigated issues. The interviews were conducted with 6 interviewees such as the staff of this SACCO because all of them had important information about the impact of financial merging system on the performance of MTG Ishema SACCO.

Observation

An observation is the primary technique for collecting data on the non-verbal behavior through sense organs, particularly vision observation and hearing observation. He added that observation is a process by which one or more persons analyze what is happening in some real-life situation and then classify and record pertinent happenings according to some planned schemes (Bailey, 1978:17).

Hence, observation was adopted in collecting the primary data on the impact of financial merging system on the performance of MTG Ishema SACCO. The researchers visited MTG Ishema SACCO to observe the financial merging system in MTG Ishema SACCO. Also, participative observation was adopted to collect relevant information concerning the problem. This was more important to note other information which was not collected from the questionnaires and interviews. Data collected in observation were qualitative and gave more explanations about the financial merging system in MTG Ishema SACCO.

Documentation

Documentation involves giving information by studying written documents, or visual information from the sources called documents. This involved collecting information and data from existing literature such as books, journals, reports, and electronic sources. These documents include any written material that contains appropriate information about the issue to be studied (Amin, 2005:26).

Hence, the researchers collected secondary data as the already existing data, by finding them where they are written. During the process of documentation, the researchers used some documents and after understanding and analyzing the relevance of texts to this study, researchers jotted them down on manuscripts and later typed them on a computer for compilation. The researchers read documents such as books, journals, articles, reports, and electronic sources. Data collected through documentation were relating to the impact of financial merging system on the institutional performance in Rwanda.

Data analysis

Data were analyzed through quantitative method and qualitative method. That is to say that this research adopted a mixed methodology in data analysis.

Quantitative method is used to quantify the problem by the way of generating numerical data or data that can be transformed into useable statistics. It is used to quantify attitudes, opinions, behaviors, and other defined variables and generalize results from a larger sample population using numbers to prove or disprove a hypothesis (Churchill, 1999:18).

In this research, statistical technique was adopted as a quantitative method to analyze quantitative data collected from the questionnaire. The frequencies and the percentages were presented into statistical tables and analyzed in order to examine the impact of financial merging system on the performance of MTG Ishema SACCO. Thus; the quantitative data were analyzed through the statistical technique after editing, coding, and tabulation.

Qualitative method is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. It is designed to provide the researcher with the perspective of target audience members through immersion in a culture or situation and direct interaction with the people under study (York, 1998:36).

In this research, the analytical technique was adopted as a qualitative method to analyze qualitative data collected from the interview and observation. The non-numerical analysis on responses from interviewees and observation made were explained and interpreted in order to examine the impact of financial merging system on the performance of MTG Ishema SACCO. Thus, qualitative data were analyzed through the analytical technique by giving detailed explanation on data collected.

RESULTS AND DISCUSSION

This chapter presents the data on the identification of the respondents and also gives data on the specific objectives. Lastly, it presents the discussion of key findings for the purpose of verifying the research hypotheses.

Data on identification of respondents

The information on identification of respondents is presented in the tables below:

Gender of respondents	Frequency	Percent
Male	72	72.7
Female	27	27.3
Total	99	100.0

Age of respondents	Frequency	Percent
Under 20 years	4	4.0
20-30 years	25	25.3
31-40 years	37	37.4
41-50 years	23	23.2
Above 50 years	10	10.1
Total	99	100.0

Education of respondents	Frequency	Percent
Primary education	44	44.4
Secondary education	37	37.4
Diploma certificate	6	6.1
Bachelor's degree	10	10.1
Master's degree	2	2.0
Total	99	100.0

Position of the respondents at MTG Ishema SACCO	Frequency	Percent
Board of directors	10	10.1
Employees	6	6.1
Members (clients)	83	83.8
Total	99	100.0

The findings presented in the table 2 above indicate the distribution of the respondents according to their gender. The research found that 72.7% of the respondents were males, while 27.3% of respondents were females. This implies that the most of respondents were males due to the fact that males access to the financial services rather than females. In addition, this entails that there are more males than females in MTG Ishema SACCO. Thus, the respondents were complementary in providing the relevant information about the financial merging system and its impact on the performance of MTG Ishema SACCO.

The findings presented in the table 3 above show the age of the respondents during the research. The study findings showed that 37.4% of the respondents were between 31 and 40 years; 25.3% of the respondents were between 20 and 30 years; 23.2% of the respondents were between 41 and 50 years; 10.1% of the respondents were above 50 years; whilst 4% of the respondents were under 20 years. This implies that the majority of respondents had the maturity age due to the fact that they have access to the financial services. Thus, the respondents were mature enough to provide relevant



information about the financial merging system and its impact on the performance of MTG Ishema SACCO

The findings presented in the table 4 above indicate the level of education of the respondents during the research period. The study findings showed that 44.4% of the respondents had the primary education; 37.4% of the respondents had the secondary education; 10.1% of the respondents hold the bachelor’s degree; 6.1% of the respondents hold diploma certificates; whilst 2% of the respondents hold the master’s degree. This implies that most of the respondents had several level of education that might help them in reading and analyzing the questionnaires as they provided the relevant information about the financial merging system and its impact on the performance of MTG Ishema SACCO. This was affected by the adoption of purposive sampling technique in which the researchers selected the respondents who could provide the reliable data.

The table 5 above presents the findings on the position of the respondents at MTG Ishema SACCO. The research found that 83.8% of the respondents were the members as the SACCO clients; 10.1% of the respondents were the members of board of directors of SACCO; while 6.1% of the respondents were the employees of SACCO. This implies that the respondents had were the internal stakeholders of MTG Ishema SACCO as they could provide the relevant information about the financial merging system and its impact on the performance of MTG Ishema SACCO.

Data on the objectives of the study

This section presents the study findings on the research objective which was to examine the impact of the financial merging system to the performance of institutions in Rwanda. Thus, this section follows the specific objectives of this study.

Necessity of financial merging system in MTG Ishema SACCO

	Answers	Frequency	Percent
Valid	Yes	91	91.9
	No	8	8.1
	Total	99	100.0

Practices of financial merging system in MTG Ishema SACCO

Financial merging system practices	Frequency	Percent
Financial planning	32	32.3
Cash management	19	19.2
Procurement planning	28	28.3
Inventory management	9	9.1
Financial reporting	11	11.1

and analysis		
Total	99	100.0

Cash management strategies used by MTG Ishema SACCO

	Cash management strategies	Frequency	Percent
Valid	Speed up cash collection	24	24.2
	Control of cash disbursement	31	31.3
	Short-term loans (bank overdrafts)	30	30.3
	Purchase on credit	14	14.1
	Total	99	100.0

Effectiveness of financial merging system in MTG Ishema SACCO

Answers	Frequency	Percent
Very effective	68	68.7
Effective	25	25.3
Not effective	6	6.0
Total	99	100.0

Challenges faced by MTG Ishema SACCO during its financial merging system

Challenges faced during the financial merging system	Frequency	Percent
Poor organizational culture	24	24.2
Inadequate commitment	23	23.2
Loss of experienced workers	25	25.3
Reducing flexibility	27	27.3
Total	99	

Effects of challenges faced by MTG Ishema SACCO during financial merging

Effects of the challenges faced by MTG Ishema SACCO during financial merging	Frequency	Percent
Reducing employees relationship	24	24.2



Change in service delivery	20	20.2
Increasing unemployment	39	39.4
Conflicts with some clients	16	16.2
Total	99	100.0

Interventions made in overcoming the challenges faced by during the financial merging

Interventions made by the management in overcoming the challenges faced during the financial merging

Interventions made by the management in overcoming the challenges faced during the financial merging	Frequency	Percent
Internal recruitment among the employees of the merging institutions	28	28.3
Increasing the employees' motivation package	12	12.1
Improving the use of technology	19	19.2
Developing the capacity of the board of directors	23	23.2
Organizing the training of the employees	17	17.2
Total	99	100.0

Objectives of financial merging system in MTG Ishema SACCO

Objectives of financial merging system

Objectives of financial merging system	Frequency	Percent
Increasing the capital of the institution	37	37.4
Increasing the economies of scale	12	12.1
Gaining more market share	15	15.2
Gaining more prestige	13	13.1
Avoiding risks	22	22.2
Total	99	100.0

Relationship between the financial merging system and the performance of MTG ISHEMA SACCO

Relationship between financial merging system and the performance

Strongly agree	38	38.4
Agree	47	47.5
Disagree	10	10.1
Strongly disagree	4	4.0
Total	99	100.0

Level of performance achieved by MTG Ishema SACCO

Level of performance achieved by MTG Ishema SACCO

Level of performance achieved by MTG Ishema SACCO	Frequency	Percent
High	46	46.5
Medium	37	37.4
Low	13	13.1
Not sure	3	3.0
Total	99	100.0

Impact of financial merging system on the performance of MTG Ishema SACCO

Impact of financial merging system on the performance

Impact of financial merging system on the performance	Frequency	Percent
Increased liquidity	15	15.1
Increased profitability	20	20.2
Increased solvency	11	11.1
Improved financial efficiency	12	12.1
Increased repayment capacity	7	7.1
Improved customer satisfaction	18	18.2
Improved brand image	16	16.2
Total	99	100.0

Comparison about the analysis of the above financial ratios before and after merger

Ratio	Pre-merger		Post-merger	Observation	
	MTG SAC CO (A)	COO PEC Ishema (B)	MTG Ishema SACCO (C)	A vs C	B vs C
CAR	19.234	20.978	21.356	Increase	Increase
ROA	1.278	1.347	1.672	Increase	Increase
ROE	10.345	11.342	11.498	Increase	Increase
NPM	32.783	30.567	33.134	Increase	Increase
NPL	3.653	5.124	4.853	Increase	Decrease
EPS	5.567	4.978	5.953	Increase	Increase

					ase
CTA	14.50 9	13.457	15.089	Increase	Increase
SR	31.25 6	30.589	32.678	Increase	Increase

The analysis of financial ratios before merging and after merging MTG SACCO and COOPEC Ishema into MTG Ishema SACCO was indicated by Capital Adequacy Ratio (CAR), Return On Assets (ROA), Return On Equity (ROE), Net Profit Margin (NPM), Non-Performing Loan (NPL), Earning Per Share (EPS), Cash to Total Assets (CTA), and the Spread Ratio (SR). The researchers tried to make the comparison about the analysis of the above financial ratios before and after merging MTG SACCO and COOPEC Ishema into MTG Ishema SACCO. The financial analysis for the pre-merger looks the financial year 2017, while the post-merger looks for the financial year 2021 as indicated in the table 17 below.

The table 17 above shows the analysis of financial ratios before merging and after merging MTG SACCO and COOPEC Ishema into MTG Ishema SACCO, the financial report. Most of the financial ratios are found to have increased after the merger, while the NPL ratios have been decreased. This indicates that by comparing the financial ratios of the two institutions before the merger and the new institution after the merger, the MTG Ishema SACCO has achieved the positive performance.

In addition, during the financial year 2017, the working capital of MTG SACCO and COOPEC Ishema were 16,467,340 Rwf and 18,625,760 Rwf respectively. On the other side, after the merger during the financial year 2021, the working capital of MTG Ishema SACCO was 42,367,350 Rwf. Thus, the working capital has increased considerably after the financial merger of MTG Ishema SACCO. Moreover, the number of clients in the MTG SACCO and COOPEC Ishema were 7300 clients and 6700 clients respectively. On the other side, after the merger during the financial year 2021, the number of clients in the MTG Ishema SACCO was 14,000 clients. Thus, the number of customers has increased considerably after the financial merger of MTG Ishema SACCO. This shows there was the sustainability of financial services such as deposits, credits, and savings after the financial merging system in MTG Ishema SACCO.

Concerning the first specific objective of this study which was “to determine the effectiveness of the financial merging practices in MTG Ishema SACCO”; the study findings illustrated from the table 7 showed that the financial merging system practices that are in MTG Ishema SACCO were the financial planning (as revealed by 32.3% of the respondents), procurement planning (as revealed by 28.3% of the respondents), cash management (as revealed by 19.2% of the respondents), inventory management (as revealed by 11.1% of the respondents) and the financial planning (as revealed by 9.1% of the respondents). In addition, the study findings illustrated from the table 9 showed that the financial merging system was very effective (as indicated by 68.7% of the

respondents), and it was effective (as indicated by 25.3% of the respondents).

This implies that from the study findings presented in the table 7 and the table 9, the financial merging system in MTG Ishema SACCO is effective as this system has the practices such as the financial planning, cash management, procurement planning, inventory management, and the financial reporting and analysis.

Concerning the second specific objective of this study which was “to found out the challenges encountered by MTG Ishema SACCO in its financial merging system”; the study findings presented in the table 10 showed that the challenges faced by MTG Ishema SACCO in its financial merging system were the reduction in flexibility (as revealed by 27.3% of the respondents), loss of experienced workers (as revealed by 25.3% of the respondents), poor organizational cultural (as revealed by 24.2% of the respondents), and the inadequate commitment (as revealed by 23.2% of the respondents). Moreover, the study findings illustrated in the table 11 showed that the effects of the challenges faced by MTG Ishema SACCO during the financial merging were the increased unemployment (as indicated by 39.4% of the respondents), reducing employees’ relationship (as indicated by 24.2% of the respondents), changing the service delivery (as indicated by 20.2% of the respondents), and the conflicts with some clients (as indicated by 16.2% of the respondents).

This implies that from the study findings presented in the table 10 and the table 11, there are the challenges encountered by MTG Ishema SACCO in its financial merging system such as the reduction in flexibility, loss of experienced workers, poor organizational cultural, and the inadequate commitment.

Concerning the third specific objective of this study which was “to analyze the relationship between the financial merging system and the performance of MTG Ishema SACCO”; the study findings presented in the table 14 showed that there is a positive relationship between the financial merging system and the performance of MTG Ishema SACCO (as strongly agreed by 47.5% of the respondents, and 38.4% of the respondents had agreed that relationship). This denotes that most of the respondents affirmed the positive relationship between the financial merging system and the performance of MTG Ishema SACCO. Furthermore, the study findings presented in the table 16 indicated that the impact of financial merging system on the performance of MTG Ishema SACCO was the increased the profitability (as revealed by 20.2% of the respondents), improved the customer satisfaction (as revealed by 18.2% of the respondents), improved the brand name (as revealed by 16.2% of the respondents), increased the liquidity (as revealed by 15.1% of the respondents), improved the financial efficiency (as revealed by 12.1% of the respondents), increased the solvency (as revealed by 11.1% of the respondents), and the increased the repayment capacity (as revealed by 7.1% of the respondents). This was supported by the financial ratios which showed that the performance had been improved after the merger of MTG Ishema SACCO. In addition, during the financial year 2017,

the working capital of MTG SACCO and COOPEC Ishema were 16,467,340 Rwf and 18,625,760 Rwf respectively. On the other side, after the merger during the financial year 2021, the working capital of MTG Ishema SACCO was 42,367,350 Rwf. Thus, the working capital has increased considerably after the financial merger of MTG Ishema SACCO. Moreover, the number of clients in the MTG SACCO and COOPEC Ishema were 7300 clients and 6700 clients respectively. On the other side, after the merger during the financial year 2021, the number of clients in the MTG Ishema SACCO was 14,000 clients.

This implies that from the study findings presented in the table 14 and the table 16, the impact of financial merging system on the performance of MTG Ishema SACCO is found in increasing the profitability, improving the customer satisfaction, improving the brand name, increasing the liquidity, improving the financial efficiency, increasing the solvency, and increasing the repayment capacity.

CONCLUSION AND RECOMMENDATIONS

This study aimed at examining the impact of financial merging system on the performance of microfinance institutions in Rwanda, a case study of MTG Ishema SACCO during the financial year of 2021. The study was guided by the following three specific objectives: to determine the effectiveness of the financial merging practices in MTG Ishema SACCO; to find out the challenges encountered by MTG Ishema SACCO in its financial merging system, and to analyze the relationship between the financial merging system and the performance of MTG Ishema SACCO. Data were collected from the sample of 99 respondents, and analyzed in accordance to the above specific objectives of the study. It was shown that all the three hypotheses were verified and confirmed by the study findings.

Concerning the effectiveness of the financial merging practices in institutions, this hypothesis is confirmed as indicated in table 7 and table 9. It was indicated that the practices of financial merging system are the financial planning, cash management, procurement planning, inventory management, and the financial reporting and analysis. Therefore, the financial merging is an effective system towards the performance of institutions. Besides, concerning the challenges encountered by the institutions in their financial merging system, this hypothesis is confirmed as shown in table 10 and table 11. The challenges are the reduction in flexibility, loss of experienced workers, poor organizational cultural, and the inadequate commitment. Regardless those challenges, there are the interventions formulated in overcoming the challenges faced by the institutions during their financial merging system such as the internal recruitment among the employees of the merging institutions, developing the capacity of the board of directors, improving the use of technology, organizing the training of the employees, and increasing the employees' motivation package. Furthermore, concerning the relationship between the financial merging system and the performance of MTG Ishema SACCO, this hypothesis is confirmed as shown in the table 14 and table 16. It was indicated that the objectives of

financial merging system in the institutions are to increase the capital of the institution, avoid risks, gain more market, gain more prestige, and to increase the economies of scale. Further, it was indicated that the impact of financial merging system on the performance of the institutions is based in increasing the profitability, improving the customer satisfaction, improving the brand name, increasing the liquidity, improving the financial efficiency, increasing the solvency, and increasing the repayment capacity.

Therefore, the merger has been undertaken for various motives including cost efficiency, revenue enhancement, capital position consolidation, economies of scale and scope, and so on. The study showed that merger is beneficial only in the cases where the institutions with the brand name are involved, and the financial performance of those institutions has been improved after merger. It is concluded that the performance is improved through the merger as the merger brings about higher capital and customer base which important ingredients in the institutional performance. With increased financial institutions' stability and ability to lend, the financial institutions in turn make higher profits. Thus, the financial merging system has a great impact in improving the performance of several institutions in Rwanda.

Recommendations

Referring to the study findings, the following recommendations were formulated to improve the impact of financial merging system on the performance of several institutions in Rwanda, including the microfinance institutions:

- The institutions with a weak and unstable capital base are recommended to seek to consolidate their establishments through mergers and acquisitions. Through mergers and acquisitions, these companies will be able to extend their market share and revenue base hence increase their profitability.
- It is recommended that institutions should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term financial synergies. They should increase their scope to create high-performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders.
- The institutions are recommended to have a large board size and experienced directors for better financial performance. This will reduce the problem of free rider and enhance effective monitoring and decision-making. It will also bring about cohesion among the board members.
- The Central Bank of Rwanda (BNR) is recommended to come up with strategies and policies to protect the financial services sector due to its immense contribution to the economy of the country by formulating policies aimed at controlling the effects of rapid fluctuations of the macroeconomic factors and their effects on the sector.
- It is recommended that the institutions have to merge to maintain the capital requirement and financial stability

and therefore merger should be done by realizing the necessity rather than being forced into it. The merger should not be considered as the definite solutions to overcome the challenges faced in the market.

- The financial institutions should make enough evaluation to select the right partners before executing the merger.
- It is recommended that the mergers need to be supplemented by other measures such as enhancing the expertise and professionalism of the banking personnel and bringing about more effective corporate governance to further increase the resilience and competitiveness of the banking institutions in the context of the challenges of a globalized and liberalized environment.

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