

UNIVERSITY OF KWAZULU-NATAL

**STRATEGIC APPROACHES TO ACHIEVE CORPORATE
GOALS: A CASE STUDY OF THE FINANCIAL SECTOR**

By

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ABSTRACT

This research examined mergers and acquisitions in the South African banking sector. Many studies analysing bank mergers and acquisitions have been conducted in the United States and Europe. However, not much is investigated about these deals in South Africa. The purpose of this research was to understand mergers and acquisitions and the motivations for these corporate actions and to analyse some mergers that have occurred in the South African banking sector.

In 2013, Barclays increased its interest in the Absa Group to 62,3%. The deal was part of the restructuring of most of Barclays African operations, Barclays Africa Group. This deal led to Barclays introducing most of its African interest into ABSA Group – currently known as Barclays Africa Group. Research in the United States and Europe showed that organisations can take into consideration investing in mergers and acquisitions for motives for instance growth, diversification, synergy, market power and tax considerations.

The research questions were as follows: What are the motives that drive banks to use mergers and acquisitions as a corporate strategy? What are the effects of mergers and acquisitions in the South African banking sector? Can a bank become a large global player without making any acquisitions?

Since the aim of the study was to understand mergers and acquisitions in the South African bank sector and the motives for these corporate actions, the researcher conducted a qualitative, exploratory study. It was important to find the relevant literature and articles that could explain the motivations behind mergers and acquisitions. The findings led the researcher to use the following conceptual framework of motivations that could explain why mergers and acquisitions occur: strategic motivations refer to extension, consolidation and capabilities. Financial motivations refer to financial efficiency, tax efficiency and asset stripping. Managerial motivations refer to personal ambition and bandwagon effects.

The results showed that the most important motivations mentioned were strategic and financial motivations. Participants were then asked to give their opinions on a few bank transactions that have occurred in South Africa. The most common answers given were that South Africa is mainly used as a gateway to the rest of Africa and that South Africa has a well-regulated financial system. People concerned with the conceptualisation, structuring and execution of bank mergers transactions, should consider the motivations mentioned by participants in this research.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Currently, organisations need to modify themselves to keep on growing in today's fast changing business environment. Although, staying strategically active (in operation) is not easy for big organisations, which are used to lengthy periods of market consolidation and growth through increasing capacity. Due to constant changes in technology, falling behind in today's business environment by making bad investment decisions or concentrating on the wrong product or service, may lead to a long term disadvantage. As reported by Ricardo (2014, p.1) "corporate strategy not only involves choosing the right plan for growth, but also ensuring that the company can quickly react to dynamic marketplaces and competitive environments".

This chapter provides a definition of corporate strategy, this is followed by the background of the study, outlining two major bank mergers that have occurred in South Africa which are the Absa and Barclays transaction and Standard Bank and Commercial Bank of China. Thus, leading to the following research question: What are the motives that drive banks to use mergers and acquisitions as a corporate strategy? In addition, the methodology to answer the research question is described. The researcher then describes why this study is of great value to the academic literature.

1.2 CORPORATE STRATEGY DEFINED

Strategy is concerned with the important aspects for the future of the organisation. Corporate strategy naturally deals with entrepreneurs and senior managers at the top of their companies. In addition, it is required that middle management understands the strategic direction of their companies, to be aware of how to obtain encouragement from top management for their initiatives, and to describe the company's strategy to the individuals they are in charge of (Johnson, Whittington and Scholes, 2011, p.2).

Designing a strategy constitutes a managerial dedication to follow a specific set of activities in developing the business, attracting and satisfying clients, challenging on a sustainable basis, pursuing operational excellence and applying best practice to improve the business's financial and market performance (Thompson, Strickland and Gamble, 2007, p.3). Corporate strategy can be described as the force that drives a company to establish itself in different industries (Thompson *et al.*, 2007, p.38).

Johnson *et al.* (2011, p.3), define strategy as "the long-term direction of an organisation" and Mintzberg (2007, p.3) defines strategy as "a pattern in a stream of decision", while Porter (1996, p.

60) argues that strategy is “about being different, it means deliberately choosing a different set of activities to deliver a unique mix of value”.

According to Bradley (2014, p.1), corporate level strategy “is concerned with the strategic decisions a business makes that affect the entire organisation. Financial performance, mergers and acquisitions and human resources management are considered part of corporate level strategy”. As stated by Johnson *et al.* (2011, p.7), corporate level strategy deals with “the overall scope of an organisation and how value is added to the constituent businesses of the organisation whole”.

In accordance with the definitions above, there are different ways to define strategy as the long-term direction of an organisation (Johnson *et al.*, 2011, p.3), strategy is about being different (Porter, 1996, p.60) and means a pattern in a stream of decisions (Mintzberg, 2007, p.3) and it deals with the highest level of operation of a company (Thompson *et al.*, 2007, p.38).

1.3 STRATEGIC CHOICES

Strategic choices are options in terms of the direction in which strategy may progress and the procedures by which strategy may be undertaken. For example, a company could have various strategic directions open to it such as diversifying into new products, entering new international industries or to change the current products and industries through profound transformation. These different directions can be conducted by distinct procedures, for instance, a company might buy a business which is already operating in a product or market field, or it could form strategic partnerships with related companies that could assist the recent strategy or it could attempt to continue the strategies individually.

Typical strategic choices according to Johnson *et al.* (2011, p.17), are as follows: business strategy, corporate strategy and diversification, international strategy, innovation and entrepreneurship, mergers, acquisitions and alliances. According to Ehlers and Lazenby (2011, p.409), organisations can use four primary strategies to participate in the global environment: international strategy, multi-domestic strategy, global strategy and transnational strategy. The suitability of strategies will depend on the amount of pressures for cost reduction and regional acceptance.

Business strategy according to Schimdt (2015), it describes how a company succeeds, creates customer value, competes with others in the same industry and how it creates income and spends to generate good margins.

Johnson *et al.* (2011, p.17) argues that:

Business Strategy refers to the way an organisation finds a way to compete at the individual business level. Normally these choices involve strategies based on cost (economies of scale) or differentiation (superior quality). The fundamental question is how should the business unit compete?

Business strategy deals with searching for competitive advantage in industries at the business instead of corporate level and it is necessary to be taken into consideration and defined with regards to strategic business units (SBUs). Ehlers and Lazenby (2011, p.329) argue that:

An SBU structure, groups similar divisions into strategic business units and gives permission and power for each unit to a senior executive who reports immediately to the group CEO.

Corporate Strategy and Diversification relates to the growth of products and markets. Corporate strategy is related to the relationship between the varied entities that form the corporate portfolio of the company and with how the main owner adds value to the individual company. Therefore, the important question here is which business to include in the portfolio (Johnson *et al.*, 2011, p.17). Ostlund and Lindblad (2008) argue that banks diversify to meet more consumer demands and to spread risk on several markets. For instance, Sony started by producing radios, but now makes games and music. As companies add modern elements, their strategies do not only deal with the business level, but with the corporate level choices concerned in having several different businesses or markets.

International Strategy according to Ehlers and Lazenby (2011, p.409), refers to organisations attempting to create value by moving important skills and products to international industries where local competition does not have those expertise and products. An example could be McDonald's. Organisations centralise product development functions at home and create production and marketing tasks in each crucial country where they do business

Innovation and Entrepreneurship these days it is important for organisations to consistently innovate if they want to survive and remain competitive. The fundamental question here is, whether the organisation is innovating appropriately. Innovation and entrepreneurship are fundamental to today's economy. Innovation is a relevant feature of business level strategy, with involvements in cost, value and sustainability (Johnson *et al.*, 2011, p.17). According to Brooks (2015), entrepreneurship means emerging with an idea and turning it into a profitable business. It is also a journey of risk management to create value for profit or social good.

Mergers, Acquisitions and Alliances companies have to make choices about procedures for undertaking their strategies. Most companies would rather start with their particular resources (organic growth), while other companies might expand through mergers and acquisitions or strategic

alliances with other companies. The fundamental question here is whether to buy another company, ally or to go it alone (Johnson *et al.*, 2011, p.17).

Multi-domestic strategy these organisations try to reach maximum local acceptance. They also have a tendency to move expertise and products produced in their home country to international industries, but they considerably customise their products offering and their marketing strategy to different local circumstances. For example, Toyota, adapts its motor cars specifically to the South African market, 4x4s and right-hand drive (Ehlers and Lazenby, 2011, p.409).

Global strategy these organisations most important objective is to increase profitability by acquiring the cost decrease that comes from experience-curve impacts and location economies. Hence, they pursue a low-cost strategy and their value-creation activities are located in a few suitable areas. They will rather market a standardised product globally and obtain profits from economies of scale. For example, Nokia (Ehlers and Lazenby, 2011, p.410).

Trans-national strategy these organisations will make an effort to reach low-cost and differentiation advantages simultaneously. It is not an easy strategy to follow because pressures for local responsiveness and cost decrease place contradicting requirements on an organisation (Ehlers and Lazenby, 2011, p.410).

But for this particular study the researcher will only focus on Mergers and Acquisitions, and it will consider them as strategies to achieve corporate goals in the financial sector, more specifically banks.

1.4 MERGERS AND ACQUISITIONS

Mergers and acquisitions are a way of attempting to create value. The banking industry has not been an exception to this international trend. It is a process which normally follows an organised and disciplined procedure, with explicit strategic targets, thorough execution plans and an emphasis on creating and capturing value (Deloitte, 2014).

Organisations engage in mergers and acquisitions for different reasons varying from the expansion of operations and market share in the determination of innovation and knowledge. Even though, many companies find mergers and acquisitions as very beneficial to their operations, many come across with issues which can have serious consequences for the future position of the company. In this globalised economy, this phenomenon also serves as an essential instrument for growth and expansion of the economy.

A strong merger and acquisition strategy can help companies grow considerably in any industry. The influence of technology and the internet has expanded the size of the transactions. Buyers of all

shapes and sizes have quite the same strategic goals, but each industry has its own particular objectives (Sherman, Morin and Oshinsky, 2013).

Mergers and acquisitions, either domestic or cross-border, are of considerable relevance for organisations to survive in today's competitive world. The success and failure of such deals are very important and have big effects on the organisations involved (Sudarsanam, 2010).

As reported by Kiene, Helin and Eckerdt (2011) companies are now trying to grow and expand their business through external growth strategies. Growth is one of the reasons for mergers and acquisitions in developed economies and is a strategy that most companies in South Africa are now using as a corporate strategy.

Yuill (2013, p.106) stated that:

South Africa has traditionally not provided for mergers in the true sense of the word, where one entity merges with another. Generally, business combinations have been effected through the acquisition by one company of the shares or assets of another, through a scheme of arrangement, tender offer or sale of the business. The adoption of a statutory merger procedure in the new Companies Act on 1 May 2011, therefore, marks a significant departure from the old regime. It also brings South Africa into line with a number of major jurisdictions worldwide.

Mergers and acquisitions are regularly based on different targets of achievement, depending on each company. Growth or diversity are usually justified as two of the principal motivations for joining two organisations; however, not much consideration is given to the understanding of those mergers and acquisitions.

Bank mergers and acquisitions activities have brought a lot of attention to the banking sector. This interest comes from researchers trying to explain the reasons for mergers and acquisitions, and if they are profitable. It also comes from the policymakers regarding market regulations and restricting banks from having a big market power (Ostlund and Lindblad, 2008, p.1). This makes it an interesting subject to research further.

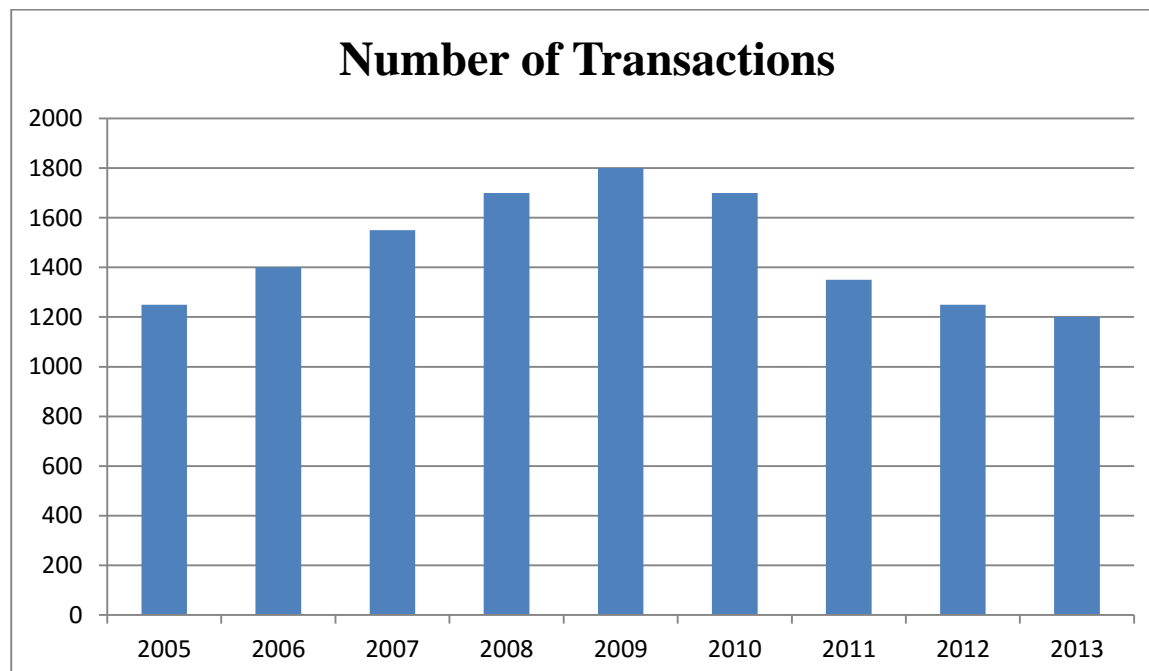
1.5 BACKGROUND

According to a report on PWC (2013, p.2), the total number and value of transactions of global bank mergers and acquisitions has dropped moderately over the past few years. Since 2008 and 2009 banking deals have decreased, even though these transactions are still a vital tool for expansion. The challenge always is what drives banks to identify and implement acquisitions, mergers or

partnerships. Figures 1 and 2 provide more details regarding global bank mergers and acquisitions. Radebe (2013), reported that mergers and acquisitions are often in the news. For example, in 2013, Barclays increased its share in Absa Group to 62,3%. The deal lead to a major reorganisation of Barclays operations in Africa and saw Barclays introducing most of its African shares into Absa Group – currently known as Barclays Africa Group.

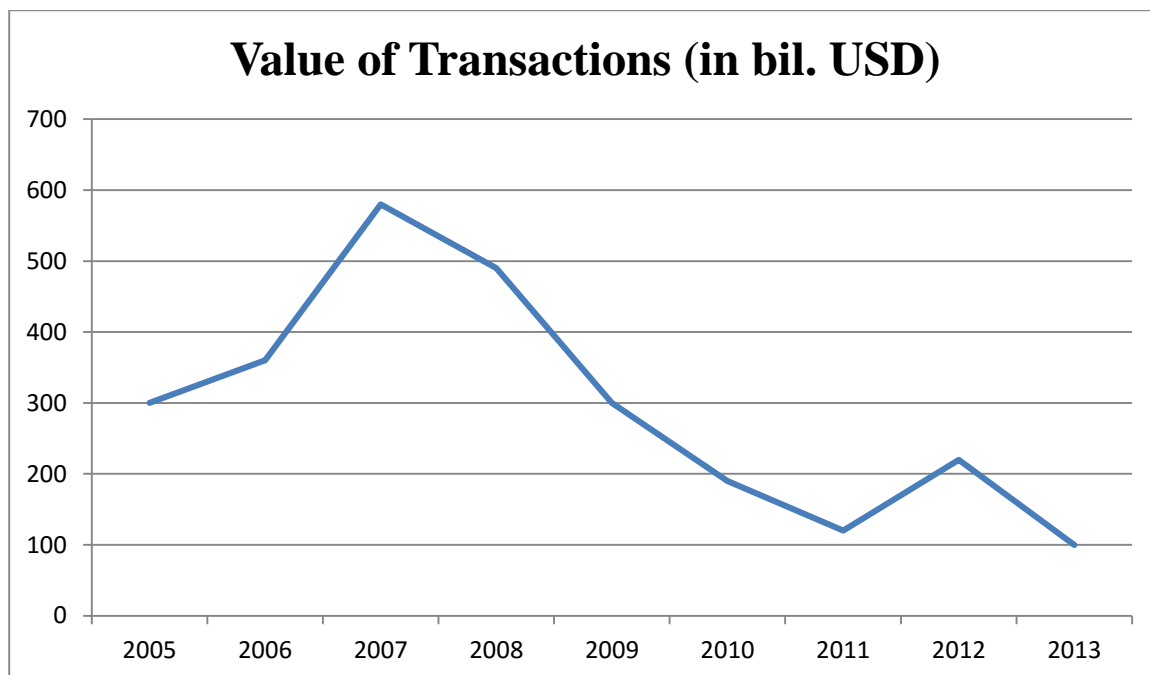
In 2014, Standard Bank and Industrial and Commercial Bank of China (ICBC) the most profitable lender in the world, accepted to be in charge of Standard Bank Group’s markets unit. Standard Bank sold 60 percent of the London – based business to ICBC and gave the Chinese bank a five-year choice to buy a further 20 percent stake in the unit (Bonorchis, 2014). Taking over one company and completing a merger between two companies are all very common methods for carrying out strategies. This study, therefore, addresses mergers, acquisitions and the motives for banks to pursue such strategic options. As seen in Figures 1 and 2 below, the number of transactions in global banks reached its peak in 2009 (1800) and then dropped slightly from 2010 to 2013. Further, the value of transactions in global banks faced a sharp decline from 2007 to 2013. The reason for the decline in both the number of transactions and value in global banks was due to the financial crisis that hit the world during the period 2008 to 2010.

Figure 1: Announced Mergers and Acquisitions, Banks Worldwide 2005-2013



Source: Institute of Mergers, Acquisitions and Alliances (IMAA) statistics (2014)

Figure 2: Announced Mergers and Acquisitions, Banks Worldwide 2005-2013



Source: Institute of Mergers, Acquisitions and Alliances (IMAA) statistics (2014)

1.6 PROBLEM STATEMENT

Studies have been conducted in developed countries regarding the motives of mergers and acquisitions in those countries. Motis (2007, p.2), analysed some motives for mergers and acquisitions. The author classified them into two main groups, in which the first group the researcher mentioned the motives for merging with other firms, which is to increase actual or future economic returns. The second group included interests related to the manager which was to increase wealth rather than the company's value. Furthermore, the researcher reviewed three different empirical methods to investigate merger motives, which were the event studies, the accounting studies and the case-by-case studies.

Furthermore, according to Motis (2007, p.23), the event studies assumed that "stock prices reflect the present value of the expected gains created by the merging companies and generally conclude that merging is not a profitable activity for the acquiring firm".

The accounting studies analysed "merger performance by measuring and comparing the accounting profits of the merging parties before and after their integration with those of a control group" (Motis, 2007, p.24).

Case-by-case studies are carried out for horizontal merger situations and to expand either vertical or conglomerate mergers. In addition, the research was based on oligopoly models of competition and employed structural econometrics to anticipate the outcome of the merger on costs.

Karagiannidis (2010), in his research about the reasons for mergers and acquisitions in Australia made use of third party data where most of the sources were obtained from both public and private. After data collection, all the information was analysed and reviewed. According to an article from the University of Western Australia (2013), third party data refers to any data that has been obtained from research conducted by an external agent, where in most cases this data is protected by copyrights or trademarks.

Osae (2010, p.12), in his study analysed mergers and acquisitions and some of the reasons behind them. The research focused on the mining industry in South Africa as well as the mining industry internationally. A framework of value assessment was developed and used to assess some transactions in South Africa. Furthermore, the researcher used a framework to assess mergers and acquisitions, using findings from the literature review, personal opinions and contributions from important stakeholders in the industry who have in depth experience in the sector.

Mergers and acquisitions transactions are frequently related with large financial deals. But this activity has been affected by the slowdown in shares in South Africa and other emerging markets. The current economic climate in South Africa has also had an impact on the investment activity in the country, especially with regards to the volatility of the rand and labour unrest in various sectors (Anderson, 2013, p.1).

Mogototoane (2012, p.4) in a research report stated that:

Some mergers and acquisitions transactions happen because of legislative and/or regulatory requirements. These are the non-synergistic and strategic merger and acquisition transactions. For example, in South Africa, previously advantaged companies are required by law, to transfer a portion of their quality ownership to the previously disadvantaged communities and individuals. This is part of a required government intervention to deal with the previous systematic omission of the majority of South Africans from participating in the economy.

The South African economy grew 0,9% in the first quarter of 2013 and the Reserve Bank expected the economy to grow at 2% in 2013, compared with 2,5% in 2012. In the first semester of 2013, 206 deals were registered in South Africa with an approximated total worth of R121.4bn. In 2012 during the first semester, 217 deals valued a total of R65bn were registered. In the second semester, returned only 67% of the value reached in the first quarter, which was R48.7bn compared with R72.7bn (Anderson, 2013).

Now that the economic recession is almost over, banks are turning their attention to mergers and acquisitions as a method to stimulate expansion. Banks are hoping, mergers and acquisitions will enable them to access alternative industries and obtain new consumers for product and service diversification. Nevertheless, as banks engage in cross-border deals, they will face significant complexity and huge risks. Therefore, it is important to perceive the elements that are vital to implementing a transaction in a way that minimises uncertainty and produces viable, long-term financial benefit for the acquiring bank (Kiene, David and Eckerdt, 2011, p.2).

The South African banking industry is not an exception to the increasing tendency in mergers and acquisitions activities.

This study examines mergers and acquisitions in the South African banking sector. Many studies exploring bank mergers and acquisitions have been conducted in the United States and Europe, but very little has been done about such deals in South Africa (De Villiers, 2008). This research aims to understand mergers and acquisitions and the motives for these corporate actions and to analyse mergers and acquisitions that have occurred in the South African bank sector. Below are some studies on bank mergers and acquisitions conducted in the United States and Europe:

Kiene *et al.* (2011), conducted a study about cross-border mergers and acquisitions in banking, and it was found that such transactions can generate important long and short-term value for global banks, in particular those transactions that involve emerging-market partners.

Ostlund and Lindblad (2008), conducted a study about the motives behind cross-border mergers and acquisitions for Swedish banks and why it is necessary to merge and take over a foreign bank. It was found that Swedish banks consider cost efficiency as an important factor to include when starting a cross border merger and acquisition. When starting a cross-border merger and acquisition Swedish banks want to increase their scale operations in order to attain more customers, so as to increase their revenue.

Promptak (2009), conducted a study about the impacts of bank mergers and acquisitions on bank behavior, where the objective was to analyse if banks involved in mergers and non-merging banks have different lending objectives. The main rationale in explaining bank mergers and acquisitions activities, is that merging companies look to improve their financial performance. Consolidations can improve the efficiency gains of the banks which emerge through combining assets in new ways, increasing market share and market power, safeguarding access to important inputs, assessing new technologies, new customer groups or new geographical markets and diversifying.

1.7 RESEARCH QUESTIONS

The research questions below will guide the study.

Main research question:

- What are the motives that drive banks to use mergers and acquisitions as a corporate strategy?

Secondary questions:

- What are the impacts of mergers and acquisitions on the South African banking sector?
- How can banks become large global players by making acquisitions?
- How have the big four banks in South Africa explored the option of mergers and acquisitions?

1.8 OBJECTIVES

The aim of the study was to understand mergers and acquisitions in the South African bank sector and the motives for these corporate actions. The study also attempted to assess the current merger and acquisition activity in the bank sector, and to find out whether or not banks reach their objectives after a merger and acquisition transaction. Finally, provide evidence on how mergers and acquisitions activities can build stronger banks.

1.9 METHODOLOGY

With the objective of the study in mind, the researcher decided to conduct a qualitative, exploratory study. The exploratory study stated by Cooper and Schindler (2006, p.150), "is particularly useful when researchers lack a clear idea of the problems they will meet during the study". According to Mogototoane (2012, p.48):

A qualitative approach is an appropriate methodology in those circumstances where the objective is to obtain a deeper understanding of the research problem and gain a fuller understanding of the research issues.

The non-probability judgemental sampling technique was used, because the researcher selected respondents that had the required information and knowledge. Furthermore, Visagie (2008, p.58) states:

That in judgemental sampling the researcher's main focus is to study certain types of subjects and this sample is selected on the basis of expert judgement.

The research methodology of this study was similar to the study designed by De Villiers (2008), which assessed critical success factors in mergers with particular reference to the Absa-Barclays deal.

1.10 SIGNIFICANCE OF THE STUDY

The contribution of this research will be to add further insights to mergers and acquisitions in South Africa, and it will additionally, form a foundation for further research on mergers and acquisitions.

This study contributes to previous research from among others, Lindblad and Ostlund (2008), Mafihlo (2006), Motis (2007), Mogototoane (2012), Karagiannidis (2010), Somdaka (2013) and De Villiers (2008).

De Villiers (2008, p.2), argued that “there are numerous studies in America and Europe about successful cross-border mergers and acquisitions, but not many recent studies involving South African organisations”. This study provided insights to the gap identified by De Villiers (2008).

1.11 OUTLINE OF CHAPTERS

Chapter one indicates the scope of the study, and it includes an introduction to the research topic and a comprehensive review of the study. It further provides, an extensive background, the problem statement, research questions, objectives of the study, methodology and the significance of the study.

Chapter two discusses the literature regarding mergers and acquisitions and its motivations. It comprises the evolution of mergers and acquisitions, definitions, types of mergers and acquisitions and, a description of the merger and acquisition process. The reasons mergers fail to meet expectations is briefly analysed, and a discussion on global banking mergers and acquisitions is provided. Furthermore, past studies on mergers and acquisitions and black economic empowerment. Lastly, a discussion on mergers and acquisitions in Africa, the bank industry in South Africa, the South African regulatory framework and the theoretical framework are discussed.

Chapter three discusses the methodology this research used to answer the research questions. The chapter includes the research design, methodology, data collection, data analysis techniques, reliability and validity, and finally the ethical considerations.

In chapter four, the findings of the survey from participants are presented. Lastly, chapter five presents a summary of the key findings and conclusions of the previous chapters, it analyses some of the implications of the study, and considers suggestions for future research. Chapter six provides the conclusions of the study, limitations and recommendations for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

In the last chapter the research was introduced, in this section of the study, a review of the literature is provided. Different academic ideas contributing to the further clarification of the study's problem statement will be provided.

Firstly, the evolution of mergers and acquisitions is presented and various definitions are quoted. A short definition of the types of mergers and acquisitions specifically horizontal, vertical, conglomerate and co-generic follows. The merger and acquisition process is highlighted, followed by the motivations and reasons why some transactions fail to meet expectations. Furthermore, an overview on global bank mergers and acquisitions is presented to have an idea of what is happening internationally. Literature from past studies relevant to the research question is reviewed in developed and developing countries. Finally, the black economic empowerment and the South African banking industry are analysed, followed by the merger and acquisition regulatory framework and the theoretical framework.

2.2 THE EVOLUTION OF MERGERS AND ACQUISITIONS

Throughout the past century, there have been six merger and acquisition waves between the periods of 1893 to 2008, according to a report by Matthews (2011).

The first wave featured horizontal mergers and it started in the United States from 1893 to 1904 creating giants in the manufacturing and transportation industries. This wave ended when World War I began (Matthews, 2011). The most affected markets were primary metals, food products, petroleum products, chemicals, transportation equipment, fabricated metal products and machinery. Those industries faced significant merger activity and they considered about two-thirds of all mergers during that time. The mergers in this wave were mainly horizontal combinations.

Most of the horizontal mergers and industry consolidation in this period gave way to an almost monopolistic industry structure. Therefore, this merger is known for its responsibility in generating big monopolies (Gaughan, 2011, p.37).

According to Matthews (2011), the second wave took place from 1919 to 1929 and it was mostly vertical. This wave was encouraged by co-operation between organisations as part of the World War I effort and the great depression. Several of those mergers produced very large scale economies that

made companies economically powerful, with the most prominent involved, originating from, the automotive (Ford and Fiat), mining, oil, food products, chemicals and banking industries. Petit and Ferris (2013, p.4) stated that:

The 1929 crisis and the depression that followed put an end to this second wave of mergers and acquisitions. Due to World War II, merger and acquisition activity remained low until the 1950s.

The third wave occurred from 1955 to 1970 and it was mainly diversified conglomerate mergers. According to Osae (2010, p.10) a conglomerate merger is where the two companies operate in distinct markets. Corporate management in the USA were obsessed with gaining access to new industries and these conglomerates then experienced a collapse in their share prices during the 1970s which as a consequence terminated this era. General Electric Company is a classic example of this tendency. Nonetheless, as mentioned by Petit and Ferris (2013, p.4):

Today's capital markets no longer place a premium on highly diversified companies. In fact, the share prices of most highly diversified companies are subject to a conglomerate discount because equity markets struggle to see the benefits of these complex enterprises.

The fourth wave was between 1974 and 1984 and it was distinguished by hostile acquisitions. As reported in research by Somdaka (2013, p.15) a hostile acquisition is one that counters the proposal against the desires of the target organisation, since the board of the target declines the bid. Various acquisitions increased severely, the responsibility of the corporate raider, developing anti-acquisitions strategies. Furthermore, tactics became more modern and investment bankers and lawyers had more important responsibilities (Osae, 2010, p.36). Normally, an acquisition is considered as friendly or hostile by the response of the target company's board of directors. If the board accepts the acquisition, it is considered friendly, if the board is against it, the acquisition is considered hostile (Gaughan, 2011, p.58).

The fifth wave occurred between 1993 and 2000 and it was marked as the era of the 'mega deal'. This era was highlighted by the need for larger economies of scale and developed international conglomerates of remarkable sizes, with the belief that competitive advantage was obtained through size. Six of the ten biggest transactions in merger and acquisition history occurred from 1998 to 2000. The markets included were financial services, oil, information technologies, telecommunications, pharmaceuticals and automotive (Matthews, 2011). Moreover, there was a rise in the number and dimension of cross-border acquisitions during the 1990s. Petit and Ferris (2013, p.5) state that:

With the evolution of the global economy, many companies saw mergers and acquisitions as the quickest and least expensive means of acquiring a presence in a foreign country and

preserving their place in the global economy. This latter trend was largely driven by the formation of multination trade zones such as the European Union (E.U.) and the North Atlantic Free Trade Agreement (NAFTA).

A few examples of some industries affected include the pharmaceutical industry, the oil and gas industry, and the automobile industry.

The sixth wave began in 2003 and continued until 2008 with the introduction of globalisation, just as settled corporate companies gave value to the requirement of creating an international capacity. Private equity boomed as investors attempted to expand ownership of their companies among themselves, day to day management and institutional shareholders. Due to the economic downturn in 2008, merger and acquisition activity has dropped around the world, but it is, therefore, foreseeable that a new wave may begin once the global recession is fully established (Matthews, 2011).

2.3 MERGERS AND ACQUISITIONS

It is important to define mergers and acquisitions because this terminology will be used across this study. Rouse (2013), argues that "mergers and acquisitions are the areas of corporate finance, management and strategy dealing with purchasing and joining with other companies". According to a report on KPMG (2014, p.13) a merger is "a transaction in which the assets of two or more companies come under the control of one company".

Osae (2010, p.9), defines merger as "the combination of two or more companies into one larger company. Sometimes, it results in a new company name, often the combination of both original companies into a new brand". The difference between mergers and acquisitions may not be very important, because most of the times the net result is the same outcome; two organisations or more that had different ownership are now operating under the same roof, normally to secure strategic or financial objective (Sherman and Hart, 2006, p.12).

According to a report by Hall (2013, p.1), "acquisition is a process also known as the takeover bid". Throughout the takeover procedure, assets of the target are either acquired completely or incompletely in order for the takeover entity to gain full access to the acquired entity resources to fulfil its strategic objective. For some acquiring entities, the acquisition process is an important growth strategy and this is done considering that the advantages of a successful acquisition will eventually diversify their product offerings, grow their market share and innovative technologies, and join new industries and influential supply channels that will contribute to more sales and incomes (Hall, 2013).

Johnson *et al.* (2011, p.329), states that "an acquisition involves one firm taking over the ownership of another, hence the alternative term takeover". The majority of acquisitions are friendly, whereby the acquirer and the target company accept the conditions in partnership, and the target's management suggests confirmation to its investors. There are also hostile acquisitions, where the acquiring company proposes a price for the target company's shares without the acceptance of the target's management and the result is determined by which side wins the support of the shareholders (Johnson *et al.*, 2011, p.329).

Osae (2010, p.10), refers to acquisition as "the purchase of a smaller company by a larger one". Occasionally, smaller companies can obtain control of a bigger company through equity ownership. This is called "reverse takeover".

2.4 TYPES OF MERGERS AND ACQUISITIONS

According to Gehi (2014), mergers can be categorised as horizontal, vertical, conglomerate and co-generic. Horizontal mergers exist where two companies manufacture related products in the same line of business. It normally decreases the number of competitors and gives an advantage over competition. In vertical mergers two or more organisations in the same market but in different areas join their businesses together. Gaughan (2011) argues that a horizontal merger takes place when two rivals integrate while vertical mergers are the integration of companies that have consumer-supplier or buyer-seller association.

In conglomerate merger companies operating in different industries join their operations (Gehi, 2014). Gaughan (2011) argues that, in conglomerate mergers the merging organisations are not rivals and do not have a buyer-seller association.

A co-generic merger is when two or more organisations operating in the same market are somehow associated to the production approaches, business markets, and basic needed technologies (Gehi, 2014).

There are two types of acquisitions according to Johnson *et al.* (2011, p.329): friendly and hostile. A friendly acquisition is:

Where the acquirer and the target company agree the terms together, and the target's management recommends acceptance to its shareholders. In a hostile acquisition the acquirer offers a price for the target's company shares without the agreement of the target's management and the outcome is decided by which side wins the support of shareholders.

Lastly, mergers and acquisitions deals could also be domestic or cross-border depending on where the organisations involved are located and operate. A cross-border deal includes two companies based in different economies, or two companies operating within one company but belonging to two different countries. Hence, in domestic merger and acquisitions deals, the companies involved come from one country and operate in that country's economy (Hoang and Kamolrat, 2007).

2.5 THE PROCESS OF A TYPICAL MERGER AND ACQUISITION TRANSACTION

Acquisitions should be seen as a process over time, where each step in the process forces different duties on managers. For the process to be considered a success, it will depend on emphasising all the important steps and managing them properly.

The most important procedures in a merger and acquisition process, as stated by DePamphilis (2012, p.138), involve business plan, acquisition plan, search, screen, first contact, negotiation, integration plan, closing and evaluation. Gehi (2014), referred to these stages as "business valuation, proposal phase, planning an exit, structuring the business deal, stage of integration and operating the venture". On the other hand, Gaughan (2011) made reference to the process respectively as, pre-merger, during-merger and post-merger stages. Johnson *et al.* (2011, p.332) identified the following key steps in a merger and acquisition process: target choice, valuation and integration.

2.5.1 Planning or pre-merger phase

If a company determines to implement its strategy through a merger or acquisition, a plan will be needed. The plan will consist of management objectives, resources assessment, industry analysis, senior management's choices concerning management of the acquisition process, a schedule and the name of the person accountable for making it all materialise (DePamphilis 2012, p.156).

Management objectives can involve financial and non-financial issues. Financial objectives in a plan for mergers and acquisitions could involve a minimum rate of return or operating profit, revenue and cash flow goals to be obtained in a stipulated period. Non-financial issues involve the reasons for making the acquisition that contributes to the achievements of the financial returns stipulated in the business strategy and may involve securing rights to particular products, patents, copyrights or brand names (DePamphilis 2012, p.158).

This phase (planning) has an effect in all areas of the merger and acquisition process, so it is essential that it is done very well (Chapman, 2004). As DiGeorgio (2002) expressed, it is important for

organisations to take a system approach to the whole merger and acquisition transaction. In a system approach, firstly any organisation considering an attainable merger or acquisition must have a strong and convincing motivation to do so (Tanure, Cancado, Duarte and De Muylder, 2009). Generally, the reason would be informed by the organisation's corporate level strategy.

Corporate level strategy ought to be differentiated from a business level strategy which essentially involves an integrated and organised set of responsibilities and actions the company uses to obtain a competitive advantage by capitalising core competencies in particular product markets (Ireland, Hoskisson and Hitt, 2011).

After establishing a solid strategic motivation for undertaking a merger, the acquiring company must then go ahead with a realistic strategy of how to conduct the merger or acquisition. DePamphilis (2012) states that, in the early steps of the acquisition procedure, the maximum amount of the company's resources including people, expert input and financial capability that senior management will be dedicated to a merger or acquisition should be decided. The financial resources that are most likely to the acquirer's disposal involve those provided by internally generated cash flow in excess of usual operating requirements, plus funds from the equity and debt markets. The target may also make available extra sources of funding.

As stated by Johnson *et al.* (2011, p.332) in the planning phase there are two main criteria to apply: strategic fit and organisational fit. Strategic fit is concerned with the original strategic reasons for the acquisition which could be an extension, consolidation and capabilities. The problem that may arise in strategic fit is that, potential synergies in mergers and acquisitions are the majority of the time overestimated to justify high acquisition prices. In addition, organisational fit is concerned with the match between the management and cultural practices, as well as staff features between the target and the acquiring company. Huge mismatches will probably cause considerable integration problems. Cross-border acquisitions are more likely due to organisational misfits and cultural and language differences between countries.

Thereafter, in the planning process there is a systematised evaluation of the company to be taken over as part of the due diligence procedure (Tanure *et al.*, 2009). The aim of this procedure is to secure sufficient facts about the target.

The parties involved in the deal should conduct their particular due diligence to analyse possible uncertainties and rewards correctly. The parties can conduct different types of due diligence such as buyer, seller and lender due diligence (DePamphilis, 2012). For this reason, it is important that not only the acquiring company should conduct a due diligence investigation of the target company but, such a procedure has to completely evaluate and in a thorough manner investigate all relevant features

of the target company. To achieve that, the team conducting the due diligence investigation has to consist of people with an extensive variety of abilities and knowledge (Marks and Mirvis, 2001).

2.5.2 Implementation phase

This phase is concerned with structuring the deal. In order to conclude the deal, plenty of negotiation on the crucial terms of the transaction must take place (Weber, Belkin, and Tarba, 2011, p.112). This is a difficult feature of the merger and acquisition procedure because, two or more parties representing different interests make an effort to reach an agreement on a specific matter. A practical starting element in any discussion is to decide any areas of agreement and disagreement DePamphilis (2012).

Tanure *et al.* (2009) pointed out that, it is crucial for the teams concerned with the transaction, to have appropriate negotiation skills and be well prepared, because the negotiation is a procedure that presents managers with obstacles that might have an effect on their capacity to comprehend how to fulfil the advantages they predict from their acquisition plans. This is significant because part of the difficulty throughout discussions is that the discussion stage is specifically vulnerable to cultural aspects (Tanure *et al.*, 2009).

On the other hand, Gaughan, (2011, p.21) argues that some mergers and acquisitions are negotiated in a friendly environment. In this type of acquisition, the procedure normally starts when there is some type of formal contact from the acquirer management, most of the times through the investment bankers of each company. Management from both the acquiring and the target companies keep in touch with their respective boards of directors of the development of the negotiations since mergers usually require the boards' approval.

Another critical aspect during the planning of the negotiations is to have an appropriate understanding of the parties in the negotiations. For the negotiations to succeed, it will depend on objectivity, the relevance of accurate details and on the careful planning of the course of the discussions. One of the approaches to negotiating planning is to recognise significant areas where cultural clashes may emerge in the course of the negotiation and to formulate a strategy of how to deal with that (Weber *et al.* 2011).

2.5.3 Integration or post-merger phase

According to Gehi (2014, p.1), merger integration "includes the entire process of preparing the document, signing the agreement and negotiating the deal". In addition, it describes the guidelines for the future relationship between the two entities. As soon as it is completed, it is very important to

integrate the merged entities very well (Ireland *et al.*, 2011). The reasons for this, as Nguyen and Kleiner (2003, p.447) argue, "research shows that the opportunity for mergers to fail is greatest during the integration process". The post-merger period is the most complicated period for the new team to move forward as a whole.

DePamphilis (2012) argues that in order for an integration to succeed, employees from both companies have to work towards reaching the same objectives and this comes as a result of building confidence and reliability. In such cases, it is convenient to appoint an integration manager with outstanding interpersonal and project management skills. It is important for the buyer to decide what is vital to continue the target's success during the first few months after the closing of the deal. Essential activities involve identifying key managers, vendors, customers and determining what is necessary to keep them as valuable assets. Furthermore, the author adds that the most important activities in this phase are employee retention, communication, satisfying cash-flow requirements, employing best practices and cultural matters.

For example, cultural differences between both companies and incompatible financial or information technology systems may pose a challenge to the integration.

Nguyen and Kleiner (2003), pointed out that the reasons why integration fails are due to inappropriate strategy, the absence of a clear vision, cultural clashes and slow communication or delays in communication. Lin (2012, p.1), agrees that "superior performance of the merged entities depends on sufficient and effective integration of the merged entities", but is convinced that more research should be done on the level of integration required to achieve the desired objectives.

2.6 IMPORTANCE OF CULTURE INTEGRATION DURING A MERGER

Some research concluded that differing cultures are a big problem for effective integration of post-acquisition activities and the reasons for that is the imperfectly shared understandings and that as much as 85 percent of mergers and acquisitions lack of success is due to failing to handle the practical problems of cultural integration (Tanure *et al.*, 2009). DePamphilis (2012), states that cultural issues "reflect the set of beliefs and behaviours of the management and employees of an organisation". A few organisations are particularly paternalistic, and others are very "bottom-line" oriented. Some give power to workers, while others have confidence in extremely centralised control. Some encourage problem solving within a team context, others motivate particular accomplishment.

Naturally, distinct business cultures will obstruct post-acquisition integration efforts and there is a necessity to handle them efficiently.

Changes in an organisation are very important because the needed changes will have an effect on business culture. Organisational culture is essential to the success or failure of a deal (Bligh 2006).

According to a report on Price Water Coopers (2012), people integration and human resources participation early and during the transaction and integration process is vital for the deal to be a success. Although, many times deal makers take into consideration these human elements very late in the process. Workforce transition is not planned and integration of human resources into the deal structure and process, missing opportunities to realise added synergies.

Researchers such as Appelbaum, Lefrancois, Tonna and Shapiro (2007, p.192), described cultural incompatibility as “the only biggest reason for lack of performance, exit of crucial managers, as well as lengthy disputes in the integration of two organisations”.

2.7 IMPORTANCE OF DUE DILIGENCE DURING A MERGER

According to a report by Lehman Brown (2014) due diligence in the context of mergers and acquisitions refers to following negotiating acceptance of collaboration with a target company, the acquiring company is authorised through mutual consensus to conduct an investigation into the operational state of the target. Due diligence involves an investigation intended for all relevant issues related to mergers and acquisitions, a series of operations like data analysis and field surveys. The operations can be subdivided into financial due diligence which determines if or not an organisation accounts are regular, evaluation of the real state of assets, liabilities and tax risks. Legal due diligence consists of analysing contracts and other documents, the evaluation if or not any unseen legal risks or lawsuits exist. Human resources due diligence consists in recognising the qualifications, technical skills and working self-motivation of the target company’s senior management and crucial employees. Operational due diligence evaluates the target’s business model and expectations, involving identifying the existence of a market and assessing their competitive situation.

Currently, most companies are managed and operated by professional managers and these managers have the responsibility to explain and illustrate to shareholders, the necessity and utility of any merger and acquisition program, as well as the fairness of prices due diligence, and therefore, becomes a necessary and essential part of merger and acquisition processes (Lehman Brown, 2014).

Osae (2010, p.25) on a report identified the following three kinds of due diligence conducted by different parties. Buyer due diligence focuses on problems like confirmation of the expectations underlying the price. It will conduct a strategic, operational and marketing analysis by senior operations and marketing management, a financial analysis by financial and accounting staff, and a legal analysis by the acquirer’s lawyers. The strategic and operational analysis should focus on the

seller's management, operations, sales and marketing strategies. The financial analysis focuses on the precision and conclusion of the seller's financial statements. Lastly, the legal analysis will evaluate corporate reports, financial issues, management and employee matters, material contracts and the obligations of the seller.

Seller due diligence will focus on the buyer's financial capabilities to affect the deal. If the buyer is borrowing to acquire a target company, the lender will want to execute its own due diligence to certify the precision of the prices, as well as the buyer's capacity to refund the loan.

2.8 MOTIVES FOR MERGERS AND ACQUISITIONS

The number and worth of mergers and acquisitions activity have risen in the past two decades. Therefore, considerable amounts of research have been done on the topic (Barker, 2012, p.5). Research conducted over the past few years has contributed to various clarifications for mergers and acquisitions by examining various motives for this transaction. As a result, there are many potential reasons that were suggested as an explanation for why companies choose mergers and acquisitions as a method of growth (DePamphilis, 2008). There are various reasons mergers and acquisitions occur.

2.8.1 Growth

Growth is one of the most essential motivations for mergers and acquisitions. Gaughan (2011) argues that companies looking to expand can decide on whether to use among internal or organic growth and growth through mergers and acquisitions. Internal growth sometimes is an uncertain and lengthy procedure. Growth through mergers and acquisitions might be faster, even though there are numerous doubts. Organisations can grow in their own market or they may diversify outside their line of work.

Karagiannidis (2010) claims that many organisations are convinced that if they are big enough, they will have a strong competitive advantage by establishing an advantageous ranking in the industry by acquisitions versus green field establishments. For example, growth ratios of 10% per year that could need much effort to achieve by internal growth, emphasises the acquisition procedure. Occasionally, it may be faster to diversify into new geographic industries via the merger and acquisition procedure, instead of through internal growth. The recently purchased company's knowledge is used in the sales organisation and its expertise in the market.

For example, the acceleration of growth and the reduction of both costs and risks were the main reasons for the Absa – Barclays transaction, according to a study by De Villiers (2008, p.53).

2.8.2 Synergy

One of the goals of all mergers and acquisitions is to go after synergy gains. Synergy is accomplished when the value of the combination of the two organisations is superior than the sum of the two separate values. Such effect is often defined as $1+1=3$ (Malik, 2014, p.527)

Synergies occur when two merging organisations are able to generate more shareholder value than if they were managed individually, by means of improvement in operating efficiency, according to DePamphilis (2008).

Numerous academics have discussed the different types of synergy. The various types of synergies by three different authors are outlined below.

Table 1: Overview of authors types of synergies

DePamphilis (2008)	Gaughan (2011)	Devos <i>et al.</i> (2008)
<ul style="list-style-type: none">• Operational• Financial	<ul style="list-style-type: none">• Operational• Financial	<ul style="list-style-type: none">• Market power• Operational• Financial• Tax shields

Source: Compiled by the researcher

DePamphilis (2008), presents operational and financial synergy. Operational synergy includes economies of scale and economies of scope. Economies of scale are related to the expansion of fixed costs over growing production proportions. Economies of scope is related to the use of a particular set of abilities or an asset presently used in manufacturing a particular product or service to make associated products or services.

Financial synergy consists of the effect of mergers and acquisitions on the cost of capital, which is the lowest revenue demanded by shareholders and lenders. Merging a company with surplus cash flows with one whose internally produced cash flow is not sufficient to finance its investments of chances might cause a lower cost of borrowing.

Gaughan (2011), presents operational and financial synergy as well. As claimed by Gaughan (2011) operational synergy refers to increase in income and cost decrease. Financial synergy is reached when the cost of capital may be minimised through the merger of two organisations.

The above types of synergy can be compared to Devos, Kadapakkam and Krishnamurthy's (2008), classification of synergies into market power, operating synergy, financial synergy and tax shields. Market power is reached via the extended magnitude of the organisation. Operational synergy is reached via scale economies and financial synergy is produced with the aim of decreasing uncertainty and lowering the cost of capital. Lastly, tax shields are produced from growth in returns of the merged entity.

As from the previous discussion, about the different definitions of synergy, operational and financial synergy, it was concluded that it is discussed by all the above authors.

In accordance with the descriptions above, the authors argue similar points about synergy. DePamphilis (2008) referred to operational and financial synergy, Gaughan (2011) mentioned operational and financial synergy as well, and Devos *et al* (2008) referred to market power, operating synergy, financial synergy and tax shields.

For example, De Villiers (2008, p.53) referring to the Absa – Barclays transaction, stated that both parties had strengths in different fields. "The successful integration of the two entities enabled these synergies to be realised. It was the strengths of Barclays in areas where Absa traditionally had weaknesses, such as investment banking, which allowed Absa to realise the R1.4 billion of sustainable synergies earlier than expected" (De Villiers, 2008, p.53).

2.8.3 Diversification

An organisation may expand into areas that are concerned with the buyer's business. There may be more established assumptions of economies of scale and economies of scope in associated diversifications because a buyer may be better prepared to influence its present resources and skills if it remains a short distance to its present business activities (Karagiannidis, 2010, p.27)

According to Osae (2012), diversification is related to a plan of making mergers and acquisitions outside an organisation's core or primary business, as well as geographically. A bank, where its crucial business is focused on investments, may choose to diversify into other areas like insurance and loans, in order to pursue better growth opportunities. Moreover, geographic diversification represents more opportunities to become an important international player with regards to permission to use resources and exposure to more beneficial political and labour climates. Gaughan (2011, p.15), states that one of the most frequent motivations for mergers and acquisitions is an expansion. The author further adds that, buying a company which is in line with the business or geographic market into which the organisation may want to diversify might be faster than internal growth.

When pursuing growth, companies involved in mergers and acquisitions refer to possible synergistic increase as one of the motives for the deal. Ojanen, Salmi and Torkkeli (2008), argue that expansion and progress include geographic and product expansion, follow the clients and redeployment of resources to and from the target.

Focarelli *et al.* (2001), argue that diversification is used to satisfy client needs in an increasing global market with increasing competition. Clients constantly require different methods of executing their financial transactions and investments (Thomas, 2003). Banks expand globally to provide services for the local customers doing international transactions. This developed into further providing services for the foreign market. The demand gives banks profit opportunities by diversifying and by providing new services and technological advances makes it possible for banks to seize more easily these opportunities (Cantwell and Santangelo, 2002).

The diversification of services and products can be one of the strong motivating factors in favour of bank mergers and acquisitions.

2.8.4 Hubris

Hubris is another motive for mergers and acquisitions. Gaughan (2011, p.168), "considered the role that hubris, or the pride of the managers in the acquiring firm, may play in explaining takeovers". Hubris indicates that managers often assume that their personal judgment of a target company is better to the valuation of the industry. The determination to avoid losing in a hostile acquisition can make way to a bidding war that might end up in a purchase valuation far higher of the current economic price because of the particular interest of managers according to DePamphilis (2008). Barker (2012, p.8) argued that hubris is "an over-estimation of one's abilities, disconnected from reality which may drive acquisition behaviour as the CEO engages in empire building and satisfying their ego".

2.8.5 Market Power

In the subject of merger and acquisition, the market power theory is often used to analyse merger performance variations appropriately. Ndadza (2014, p.12) found that companies increase their competitive position in the industry by acquiring in the same industry. Therefore, companies create a near monopolistic market by decreasing the number of independent companies in an industry. According to Hankir, Rauch and Umber (2011) it contains anticompetitive effects as a result of mergers, that is to say, acquisitions will lead to a decrease in competition and increase in market

prices. Targets and bidders will be in a position to request inflated amounts at the expense of their consumers.

DePamphilis (2008) argues that market power is the decrease of competition to enable an organisation to grow its probabilities of continuing to exist. Mergers and acquisitions with these kinds of goals are likely to be affected by anti-competition and anti-collusion rules and legislation. Therefore, it must be followed with sound legal judgement and comprehension of the prevailing legal framework. Gaughan (2011, p.157), referred to market power as ‘‘monopoly power and defined as the ability to set and maintain price above competitive levels’’.

2.8.6 Tax Considerations

According to a report on Deloitte (2015) structuring the transaction in a tax efficient manner may add important value. It is important to ensure that tax advice is fully integrated into the wider deal process. Osae (2010, p.16) argues that tax benefits may be used to balance the integrated companies’ taxable revenue. Another tax benefit is produced if the acquisition is documented under the purchase method of accounting. This method demands the book value of the purchased assets to be re-valued to the actual industry value.

Furthermore, the way the transaction is taxed will most of the time play a significant part in deciding if the merger occurs more than any tax benefits that accrue to the acquiring organisation. The seller may request an amount which will be different depending on whether or not there are tax benefits to be obtained. When there is an absence of tax benefits with reference to capital gains from the deal, the seller might demand a higher amount to remunerate for tax payable from the deal (Osae, 2010, p.16).

2.8.7 Cross-Border Merger and Acquisition

In the international environment and with the rise of the globalisation of corporations, many changes have appeared for the corporations and they now have more pressure to be involved in cross-border mergers and acquisitions (Ayoush, 2011). Cross-border mergers and acquisitions are not easy to achieve successfully. As stated by Ostlund and Lindblad (2008, p.2) there are numerous previous investigations claiming the efficiency and profitability will decrease rather than increase from a merger and an acquisition. There are various factors that are part of these conclusions, for example cultural clashes and costs from necessary adjustments. Regardless of this, many banks choose to acquire banks in foreign markets, or merge with banks with different corporate cultures.

It is clear that there is an extensive variation of motives for mergers and acquisitions. One of the basic motivations for mergers and acquisitions is growth. Mergers and acquisitions produce the means by which organisations can grow quickly. Many times the unique possibility is to expand gradually through internal growth. Though, competitive circumstances could make this internal growth unsuccessful. A company can buy another company hoping to experience economic gains. Some of those gains are described as reasons for horizontal and vertical acquisitions, the other gains can come in the form of financial advantages. Other motives for mergers and acquisitions may take the form of market power, hubris and diversification. Alternative targets may have convenient supply procedures that make them interesting. The reasons are several and may differ in each transaction. The responsibility of taxes as a cause for mergers and acquisitions has been discussed often according to DePamphilis (2012). A few studies state it is only significant in a reasonably small number of transactions, while other investigations state that its role is usually more significant (DePamphilis, 2012).

2.9 REASONS WHY MERGERS AND ACQUISITIONS FAIL TO MEET EXPECTATIONS

DePamphilis (2012, p.44) argues that the failure to meet expectations depends on what way failure is interpreted. Failure rates will be low if the failure is interpreted as the incapacity to meet or exceed financial goals. Most of the times, managers feel fulfilled with their acquisitions if they are capable of achieving strategic goals, so the failure rate will be low as well if failure is interpreted as not reaching strategic, non-financial goals.

There is no individual factor to be the reason for mergers and acquisitions failing to meet expectations. Nevertheless, there are a few clarifications that are most frequently used to describe failure: overpaying, the slow pace of post-merger integration, misreading the new company's culture and not communicating clearly.

De Villiers (2008, p.30) argues that "a thorough due diligence is very important to ensure that all possibilities as well as business risks are investigated". The most important aspects to be investigated and considered in valuing a company are the potential earnings, the ability to pay dividends, as well as the net assets of the company. Overpaying for a target raises the obstacles the acquirer has to succeed in dealing with, to receive its cost of capital, because there is a small margin or no margin for mistake in reaching expected synergies on a convenient basis. (DePamphilis, 2012, p.44)

When failure to reach integration in a convenient way, on a number of occasions, it results in client weakening, reduction of important personnel and failure to realise expected synergies. According to

Iris and Linda (2005), the success of mergers and acquisitions depends largely on the banks capability to assess the relatedness of the assets of both banks as well as to being able to integrate the two banks. A cross-border merger or acquisition may make this process of integration more difficult due to cultural differences.

The fact that two organisations operate in the same industry, it does not indicate they have identical cultures. Therefore, cultural issues should be taken into consideration to avoid merger and acquisition failure. When there is a lack of information and coherent communication, rumours will spread, and people from the acquiring organisation will assume the worst. It is important to communicate clearly, honestly and consistently to the whole team and not just the executives at the top (Price, 2012). Misinterpretation due to cultural differences may lead to delays in the work which will cause increased costs.

Thus, cultural differences will have a big impact on the favourable outcome of a merger or acquisition and should, therefore, be well represented in the due diligence studies and other planning phases.

Communication delays may result in employees becoming concerned and sometimes even unkind towards the transaction, making any further effective communication very difficult. Some of these communication delays may be intentional as a result of anxiety by management of an employee exodus, possible productivity losses or even sabotage, and the consequence it may have on the share price (De Villiers, 2008, p.34).

Ostlund and Lindblad (2008, p.19) state that there is not a general agreement as to whether mergers and acquisitions are profitable or not. Some theories have found evidence of profitability while most have not. Nevertheless, banks will produce higher profits if they have high levels of efficiency as well as large market shares, and are active on a concentrated market.

2.10 DISCUSSION ON GLOBAL BANK MERGERS AND ACQUISITIONS

South Africa is a country which is still in its second decade as an open economy, so it is vital to know what is happening globally (Nene, 2012, p.8).

2.10.1 Asia-Pacific

It is expected to stay the most functional area for bank mergers and acquisitions, due to the fast economic growth and rising middle-class request for banking products. Local transactions will remain driving mergers and acquisitions, because banks are responding to growing competition and the

necessity for a significant operational and capital effectiveness. Regional transactions are already an aspect of Asia-Pacific banking, and it is only expected to increase. The speedy growth of retail banking is one of the big motives for regional growth, because banks are looking to obtain new customers and initiate a scalable platform for development. The attractiveness of Asia-Pacific banking means, banks from more developed areas like North America and Europe will maintain to use mergers and acquisitions to improve scale in the area (PWC *The Journal January*, 2013). However, according to Weng (2014), Asia-Pacific is still more active than other regions in mergers and acquisitions activity. Along with stronger economic growth and an expanding demand for financial services in the region, the possibility for Asia-Pacific banks' merger and acquisition activity remain strong.

2.10.2 North America

According to a report on Thornton (2013), interest in growing through a domestic acquisition continues high with 88% expecting a domestic deal. Banks in the US are expected to have a different attitude towards mergers and acquisitions in the coming years. A few still have important restructuring to do, and will create deals by disposing of foreign units. Other banks are in a stronger financial condition and positioned very well to diversify abroad. Asia-Pacific and South America will be the most interesting areas for outbound mergers and acquisitions (PWC *The Journal January*, 2013).

2.10.3 South America

Brazil still remains the region's most vital banking market and the country will remain generating merger and acquisition transactions. Local regulators are giving support to small banks to integrate, improve capital ratios and improve their efficiency in the industry. At the same time, bank mergers and acquisitions on other parts of the continent are developing steadily instead of dramatically, but the speed of development is probably to increase in the coming years. Local integration will continue to be a regular topic, and markets like Mexico and Colombia are attracting an increasing portion of inbound mergers and acquisitions. Though, political risk is still a concern for international buyers eyeing the potential growth of some regional markets (PWC *The Journal January*, 2013).

2.10.4 Europe

According to a report by Kirchfeld and Sutherland in Bloomberg Business (2015), new regulations intentionally made to make European banks stronger may end up motivating them to become bigger as well. In addition, banks are cutting costs and this will make consolidation necessary to increase returns.

Restructuring is set to continue to be the most crucial reason for bank mergers and acquisitions in Western Europe during the next few years, as banks are looking to focus on core businesses and leave activities of minor importance. A lot of European banks are banned from making any acquisitions by capital limitations and investor doubtfulness. However, there may be curiosity from some emerging market banks for example, Chinese banks, in troubled European targets that can offer an opportunity to build an ideal presence or acquire beneficial skills and expertise (PWC *The Journal January, 2013*).

2.10.5 Africa

With a population close to one billion and an expected population close to two billion by 2050, the continent's consumer markets are set for confident development.

According to a report from the African Development Bank Group (2012), recently, merger and acquisition transactions became a vital channel for investing in Africa for both international and local investors. Merger and acquisition transactions, so far have allowed organisations to strengthen their status in African markets, by providing to the stronger market entrance and competitiveness. Even though, the merger and acquisition market in Africa is still very small when compared with other areas in the world, its attractiveness is mostly found in the high economic growth and the optimistic energy, mining and utilities sector.

The report further stated that, investors and analysts are anticipating that the increase in merger and acquisition transactions over the African continent will continue to increase. As a matter of fact, during the last two decades, cross-border merger and acquisition deals have risen considerably from USD485 million in the early 1990s to USD 44 billion in 2010. The African continent is quickly becoming very significant to dynamic international investment banks, and merger and acquisition financial advisors like JP Morgan Chase and Morgan Stanley which in turn are increasing their rates generated from consultations given to organisations and investors throughout the activity of merger and acquisition transactions.

Africa has potential in its natural resources and it is offering investors a 1-billion-dollar consumer market. The African continent has a market opportunity for international merger and acquisition competitors to expand geographically their capital away from long-established markets like North America, Europe and more recently Asia. Apart from the conveniences of geographical expansion, merger and acquisition deals in Africa might as well be improved by the growing diversification of African economies. Especially, financial and consumer markets are set to diversify with the increase of the middle class in Africa in the not distant future. To summarise, during the short and medium period, diversification will be one of the main motivations for bank merger and acquisition deals in the African continent (African Development Bank Group, 2012).

Matthews (2011), further says that South Africa's acceptance to the BRICS (Brasil, Russia, India, China and South Africa) was welcomed with approval and criticism. It is believed that Africa as a continent is better placed for membership to the BRICS as opposed to South Africa as a single country. Though, the involvement of South Africa in the organisation is predicted to increase inbound investments and elevate the merger and acquisition sector in Africa.

According to a report by the Gauteng Provincial Treasury (2013), South Africa is able to lure more FDI (Foreign Direct Investment) from BRICS members and give permission to local organisations to invest regularly in those countries. Africa's abundant natural resources generate possibilities for commerce among BRICS countries in order to satisfy their hunger for resources. South Africa is in a good position to take advantage of becoming a member of BRICS, as the country will have a significant international exposure. It will further offer an immense promise for the nation to improve its competitiveness through collaboration in investment and commerce. More FDI will encourage economic growth, therefore allowing the country to tackle some of the constant issues such as high unemployment rates and poverty.

2.11 PAST STUDIES ON MERGERS AND ACQUISITIONS

Lumka (2003) conducted research on the merger between two financial institutions. The researcher made use of techniques that were employed in examining the integrated business strategies of Standard Bank prior to the instigation of a takeover bid by Nedcor Bank that was underpinned by available archived documents pertaining to the legal case. It was found that Nedcor's primary motivation for the merger was to protect and preserve the banking's sector integrity, considering that Standard Bank had lost its strategic focus. Nedcor's effort to combine its banking operations with Standard Banks's could potentially unlock important strategic value, and thus allow the merged entity to undertake big projects that the prior independent companies could not even contemplate. The

merged companies would have access to new technologies, superior competitive capabilities, an innovative product portfolio and a stronger balance sheet.

Darkwah (2012) in a study where the researcher investigated the financing of mergers and acquisitions between rural and community banks in Ghana, and identified a few problems of mergers and acquisitions in the bank sector are excessive financial cost, social obstacles and managerial attitudes. Furthermore, qualitative research methods were used to assess the present problems experienced by rural banks and how they are concerned with financing problems. This data was collected through recorded face to face interviews with stakeholders in rural banks as well as merger and acquisition experts.

The researcher also collected quantitative data from regulators of the rural banking sector and these data was then utilised to emphasise the necessity for more adaptable options for banks.

Nene (2012), conducted a study on the impact of mergers and acquisitions on unemployment in South Africa and the researcher applied quantitative research testing using analytical and statistical methods. The key focus of the study was on the target's employment after the acquisition. The study concluded that, employment patterns show growth in merger and acquisition affected organisations and this determined to not be sufficient when compared to organisations that are not affected by mergers and acquisitions. In addition, the study found that the relationship of labour cost to turnover showed that organisations associated with mergers and acquisitions are likely to be more effective than companies that are not affected by such transactions.

Bezuidenhout (2007) investigated the extent to which brand decisions are engaged in mergers and acquisitions during the due diligence process by leading South African corporate advisors. The research is of qualitative nature (one-on-one interviews) and open – ended questions dominated the conversation with participants to gather insights into merger and acquisition activity regarding brand in the due diligence process. It was concluded that the elements of brand equity, brand loyalty, brand awareness, perceived quality and brand association are not formally taken into consideration by South African corporate advisors when due diligence is undertaken, so the components of competitive advantage that brand equity creates are not officially assessed.

According to Smeets, Ierully and Gibbs (2013), in their study on organisational integration after a merger using an employer – employee dataset covering workers from Denmark, as well as companies from 1980 to 2006, it was found that integration is primarily implemented by assigning high-skilled workers, especially in research and development (R&D) and management, rather than mixing the workforce. Turnover is high for workers in both target and acquiring companies. Target employees have higher turnover, but this is mitigated if the target company is larger than the acquiring company.

Such patterns indicate the importance of human capital and knowledge sharing, and suggest substantial integration costs.

As reported by Jenkins (2006), "since the end of the apartheid, the South African economy has become increasingly integrated with the global economy". South African and international businesses were since then able to trade without any sanctions imposed by the apartheid regime. The dealings of South African organisations with international companies have increased and the local companies integrated with each other. An example is the creation of the Amalgamated Banks of South Africa during the 1990s, which occurred from the formation of smaller banks and now is among the biggest retail banks in South Africa. The group is known as Absa Bank Ltd (Absa).

Ramburuth and Manoim (2009, p.21), report that the South African economy has numerous sectors such as wholesale, retail, property, manufacturing, transport, storage, information technology, telecoms, finance, mining and construction. The manufacturing industry is one of the drivers of merger and acquisition activity, averaging with 25% of merger and acquisition notifications in the last decade. This is followed by property deals and they report on average approximately 20% of the merger and acquisition over the past six years. The wholesale and retail trade industries are next with 14% of the merger and acquisition deals. Finally, comes the finance industry, and then the mining and construction industry.

When the financial crisis ended in 2008, mergers and acquisitions began recovering once more in the first months of 2010 and this tendency remained into 2011.

According to Davids and Hale (2012, p.1) "most recent mergers and acquisitions activity has been in the small to mid-cap sectors and between unlisted entities". Furthermore, these transactions have been more noticeable in cross-border transactions in South Africa, inbound investment to South Africa and investment from South Africa to other African regions. Some of the current deals have involved companies from China, India, Japan, United Kingdom and the United States of America. Moreover, some BEE (Black Economic Empowerment) transactions as well, which for some years has provided significant incentive to the merger and acquisition market in South Africa.

2.12 BLACK ECONOMIC EMPOWERMENT (BEE)

The policy in South Africa about BEE is not merely a moral strategy to rectify the injustices of the past. It is a strategy for development with the objective to achieve the whole economic potential of the country while trying to bring the black majority into the economic mainstream (South Africa Info, 2014). BEE transactions are also one of the drivers of local mergers and acquisitions in the past few years and its main objective is to economically empower previously disadvantaged black South

Africans, as reported by Davids and Hale (2012). The merger between Kagiso Trust Investments and the Tiso Group is an example of a BEE transaction to build a black-owned South African investment business of scale with a diverse base of quality assets with a gross value in excess of R13 billion, as reported by South Africa Info (2014).

From a realistic point of view, any institution wanting to do business in South Africa must take into consideration and develop its BEE position. BEE is a problem which is highly considered by the South African government at the moment. Acquisitions and corporate restructurings are frequently seen as a possibility to implement a BEE section in the ownership structure of the organisation, therefore any suggested deal which does not include a section of BEE involvement will find it hard to sell to government, according to a report in Bowman Gilfillan (2001).

2.13 THE SOUTH AFRICAN BANK INDUSTRY

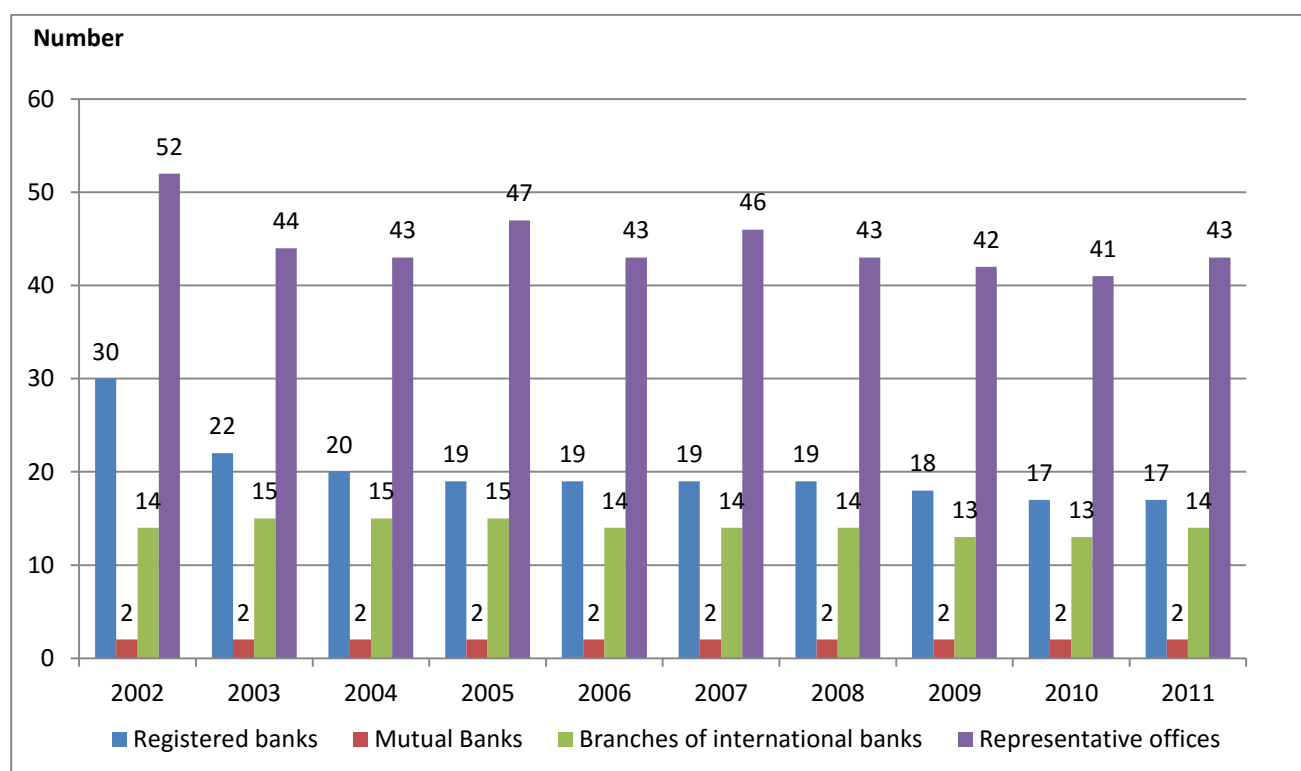
The South African bank industry is very well regulated and it definitely has some similarities with numerous industrialised nations. During the last twenty years, the industry has been through some transformation by consolidation, technology and legislation. Industry unpredictability during the early 1990s, gave way to consolidation through the mergers of a few banks, in particular, the Allied Bank, Volkskas Bank and United Bank merger to establish ABSA and the Nedcor and Stanbic merger which in the end did not succeed (The Banking Association South Africa, 2012).

Furthermore, in spite of the bank industry's unpredictability previously, South Africa still is a strategic gateway with a sound democratic and legislative environment. Its credibility has attracted several international banks which have established representative agencies in the country, while others have acquired shares in important banks like the Industrial and Commercial Bank of China – Standard Bank and Barclays – ABSA transactions. Currently, in South Africa the bank industry includes 17 registered banks, 2 mutual banks, 12 local offices of foreign banks, and 41 foreign banks with authorised domestic representative branches. Though, the industry is still very centralised due to South Africa's economic isolation during the 1980s.

Marcus, (2014, p.133) argues that the big four banks are always investing actively in information technology and their methods are very modern such as those in developed nations. Such investments have intensified the accessibility of information in the market and have led to a considerable extension in cross-border and local deals. Most importantly, information technology is a vital strategic competitive element, because it establishes the foundations for South African banks to upgrade cost effectiveness. South Africa approved a policy of actively engaging in globalisation, and has applied some economic policies to facilitate the procedure. Deregulating the trades, reconstructing the capital

market to supply more trading that concentrates on equities, bonds and derivatives, improving the national payment, clearing and settlement system, and more effective partnership in international economic collaboration have assisted in incorporating South Africa into the international financial markets.

Figure 3: Number of Banks in South Africa



Source: The Banking Association South Africa (2012)

2.14 THE MERGER AND ACQUISITION REGULATORY FRAMEWORK

The framework has been through a meaningful alteration in recent periods with the addition of a recent Companies Act on 1 May 2011. This is the first meaningful alteration to the South African company law in the past three decades, with the prior Companies Act having been in function since 1973. This current act has established some new ideas into South African law, containing for the first time, a legal merger process and investor appraisal rights.

Yuill (2013), argues that an important factor in this new merger approach is the merger agreement. As stated in the Companies Act on 1 May 2011, two or more organisations desiring to consolidate will be recommended to make a written consent outlining the terms and methods of completing the merger.

Furthermore, the Act does not simply consider traditional merger deals, where shares in the organisations consolidation become shares of the merged entity, but it accepts other methods of payments to the shareholders of the merging organisations. The adaptability to assist the company's wishes is probably among the most crucial advantages of the current merger procedure for performing merger and acquisition deals.

As soon as the merger agreement is negotiated, it needs to be presented to investors of each of the merging entities for consent. Moreover, if there are shareholders with 15% or more of the voting rights to vote in opposition to the suggested merger, the discontent investor is allowed to demand the organisation to first request court permission before executing the deal. When shareholder permission is granted, the last step to be followed prior to execution is to inform all the creditors from each of the merging entities (Yuill, 2013).

According to Davids and Hale (2012, p.2) merger and acquisition deals including organisations listed on the JSE (Johannesburg Stock Exchange) Listing Requirements, are of relevance. It has been a while, since South Africa has had a system of exchange controls with the objective of regulating the flow of capital in and out of the country. Such controls have always played a significant role in the way mergers and acquisitions deals in South Africa, specifically cross-border deals are arranged.

A merger notification then has to be filed with the Companies Commission and when receiving the notification, the Commission will provide a registration certificate for each of the new companies. They will also deregister both merging companies which will not remain active. One of the possible crucial benefits of the current merger approach is that all the assets and liabilities of the merging organisations are transferred by operation of law, to the merged organisation or organisations (Yuill, 2013).

Yuill (2013) further says that, until now there has been a very limited application of the merger process in South Africa and this is due to, firstly, professionals' lack of awareness of the process and the numerous probabilities that it offers. Furthermore, an important element in the merger process that it clarifies the transfer of assets and liabilities has not on all occasions proved to be the case in use. Finally, the tax regulation has not yet been revised to particularly meet mergers demands and there is no certainty as to the tax effects of a merger.

Davids and Hale (2012, p.2) further add that, South African law of contract plays an important role in regulating merger and acquisition deals. This is obtained particularly from the South African common law, which is not codified.

2.15 THEORETICAL FRAMEWORK

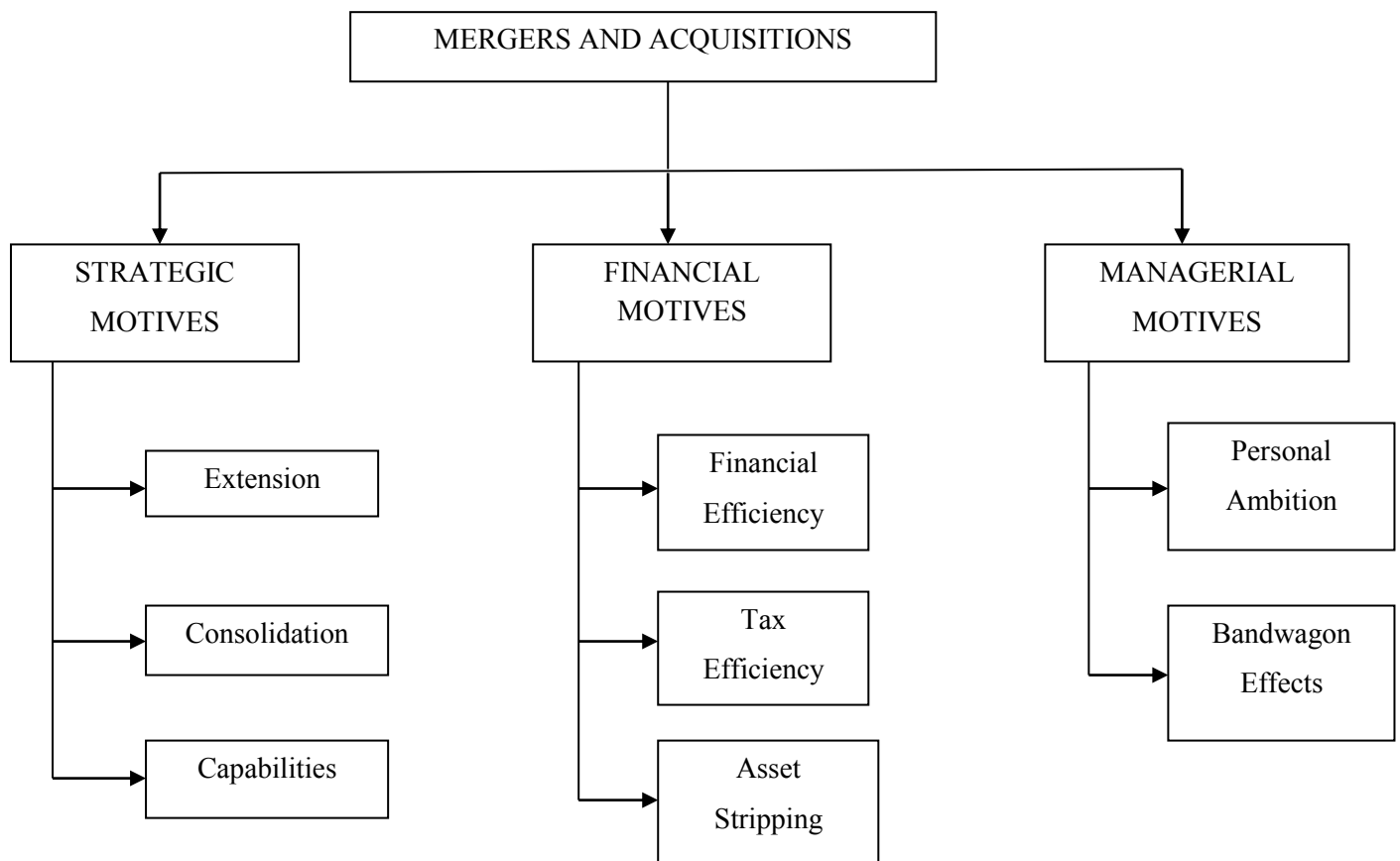
This research focused on the motives behind mergers and acquisitions in the bank industry. The researcher wants to explain which motives are of importance when consolidating with another institution and try to go in depth in the matter. A qualitative approach fits the purpose of the study as it enables the researcher to get the insights from the person being interviewed and their perspective of the subject. Firstly, it was important to find the relevant literature that could explain the motives behind mergers and acquisitions. The findings led the researcher to use the following conceptual framework for reasons that could explain why these transactions occur.

It can be seen from figure 4 that there are three main motives that explains the reasons behind mergers and acquisitions activities. The three motives as mentioned by Johnson *et al.* (2011, p.330) are as follows: strategic, financial and managerial.

For the purpose of this study, strategic reasons for bank mergers and acquisitions are categorised into extension, consolidation and capabilities. In extension, mergers and acquisitions are applied to increase the reach of organisations with regard to geography, products or markets. Consolidation mergers and acquisitions are used to integrate the competition in a market. Joining two or more rivals can have favourable results, like expanding industry dominance by minimising competition, growing productivity through minimising surplus capacity, sharing resources and finally raising production effectiveness or improving negotiating power with suppliers by forcing them to lower their prices. Capabilities-driven acquisitions are more productive in industries that are converging (Johnson *et al.*, 2011).

Financial motives for bank mergers and acquisitions deal with the ideal use of financial resources, instead of immediately improving the actual businesses and can be categorised into financial efficiency, tax efficiency and asset stripping. It is effective to join an organisation which has sufficient money with another organisation that has high debt. With tax efficiency, an organisation can operate in a low tax country and the financial gains from the organisation in a high tax country may be shifted to be taxed there. Asset stripping some organisations are impressive at identifying other organisations whose fundamental assets are valued more than the valuation of the organisation as a whole (Johnson *et al.*, 2011).

Figure 4: Theoretical Framework Diagram



Source: Compiled by the researcher

Managerial motives in the case of diversification, acquisitions may occasionally benefit managers' interests better than investors' interests. Two types of managerial self-interest are personal ambition and bandwagon effects. In personal ambition, big acquisitions attract media attention, with the chance to improve individual prestige via flattering media interviews and impression. In bandwagon effects there are two types of pressure on executives to be part of the acquisition bandwagon. First, when competitors are formulating acquisitions, investment analysts and the business media can criticise more reserved managers. Second, investors may feel that their organisation is being left behind, because they see chances for their firms being grabbed by competitors (Johnson *et al.*, 2011).

2.16 SUMMARY

This chapter explored various points of merger activity and analysed the motives for mergers and acquisitions that have been provided such as growth, synergy, diversification, hubris, market power and tax considerations. Mergers and acquisitions occur as a result of different forces that lead

companies to engage in merger activity, for example, economic disruptions, current legitimate and regulatory structures and government taxation strategies (Karagiannidis, 2010).

In the next chapter the research method the researcher found most suitable for the study is reviewed. It includes the study location and population, study sample and size, interviews, data analysis, reliability and validity of the study and ethical considerations.

CHAPTER 3: METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the data and the methodology used in this research. The literature discussed in the previous chapter, presented the support for the research problem and established the necessity to conduct this research. It was found, there has been comprehensive research about bank mergers and acquisitions for many years. Furthermore, the literature review stated, there is shortage of academic literature concerning the motives for bank mergers and acquisitions, specifically in South Africa.

The researcher chose South Africa because it is an emerging economy and due to its economic attractiveness. According to a report on Santander Trade Portal (2015), South Africa has a largely free-market economy, thus it encourages foreign investment in both public and private sectors. Factors attracting FDI (Foreign Direct Investment) into the country include a transparent regulatory framework, a large population, access to raw materials and political stability.

Furthermore, according to the report "South Africa has high market potential, developed infrastructure and a reasonably domestic economy. South Africa has shifted from its traditional industries to production and financial services which are the main contributors to the GDP".

Table 2: Foreign direct investment inflows by industry

Main Invested Sectors	2012, in %
Financial and Insurance Services, Real State and Business Services	36,0
Mining	30,9
Manufacturing	17,9
Transport, Storage and Communication	9,4
Trade, Catering, Hotel Industry	5,3

Source: South African Reserve Bank, Quartely Bulletin

This research explored the question “what are the motives that drive companies (banks) to use mergers and acquisitions as a corporate strategy?”. Data were collected using interviews with a number of experts in the field.

The research process was undertaken as follows: Firstly, a thorough literature review was conducted to prove the need for the study. Secondly, data was collected by using in-depth structured, face to face interviews with experts in the field. Thirdly, audio-recorded data collected during the research process was transcribed, read and analysed. Finally, the researcher analysed the findings and provided discussion in the background of the literature review. Thereafter, recommendations for future studies were determined and proposed.

3.2 RESEARCH DESIGN

The main research question, as presented in chapter one, is an open-ended question, therefore, a qualitative, exploratory study was conducted. According to Cooper and Schindler (2006) in exploratory research the field that sometimes is to be investigated is so recent or unclear that the investigator has the need to explore further, to learn something about the problem. It is that kind of research which looks for new insights, new questions are asked and the topic is analysed from a new perspective (Saunders, Lewis and Thornhill, 2012). According to Struwig and Stead (2004, p.12), qualitative research is concerned with perceiving issues being researched from the participants’ point of view. Therefore, such approach can be conceptualised with emphasis on words and feelings -the quality of an event or experience. In qualitative research, the emphasis is on ideas and people’s judgement of the world and events around them. This view is supported by Cooper and Schindler (2006, p.196) who stated that:

Qualitative research is an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world.

By using qualitative methods, the researcher will be able to enrich results with the respondent’s words.

The quality of human experience is, therefore, more important than quantifying how many are experiencing an event. Therefore, the objective of qualitative research is to study the object (namely man), within distinct and significant human circumstances or interactions (Visagie, 2008, p.41).

3.2.1 Why is this research design appropriate?

Visagie (2008, p.41) states that “qualitative research is designed to tell the researcher how and why things happen as they do”. It normally is a comprehensive analysis that is performed in a natural set-up. Barbour (2008, p.11) agrees with this view and stated that “qualitative research can make visible and unpick the mechanisms which link particular variables, by looking at the explanations, or accounts, provided by those involved”.

The literature review demonstrated, there are various, varied and complex motives for mergers and acquisitions (Johnson *et al.*, 2011; DePamphilis, 2008; Gaughan, 2011; Karagiannidis, 2010). Some of the motives identified in the literature are: growth (Gaughan, 2011; Karagiannidis, 2010) synergy (Devos *et al.*, 2008; DePamphilis, 2008; Gaughan, 2011), diversification (Thomas, 2003; Focarelli *et al.*, 2001; Ojanen, Salmi and Torkkeli, 2008), hubris (DePamphilis, 2008), tax considerations (Gaughan, 2011), and market power.

The general goal of this research was to gain knowledge, point of views and more insights about the points raised by the research questions. The aim was to unfold the motives for bank mergers and acquisitions. The researcher believed, for example, the question of what the effects are of mergers and acquisitions on the South African bank sector, the question on can a bank become a large global player without making any acquisitions, is expected to provide many and different answers from the participants in the study. These were some of the reasons that made the researcher use a qualitative method for this study.

As stated in the research objectives, this study is expected to provide some insights into the understanding of mergers and acquisitions in the South African banking sector and some of the vital reasons for these corporate actions and to provide some evidence on how mergers and acquisitions activities can build stronger banks.

This research made use of a qualitative research design, similarly used by Mogototoane (2012) and Maree (2007), in their studies on mergers and acquisitions. According to Mogototoane (2012, p.48), “a qualitative approach is an appropriate methodology in those circumstances where the objective is to gain a deeper understanding of the research problem and gain a fuller understanding of the research issues”. Loots (2008) used the same methodology in a study of how organisational culture affects the success of mergers and acquisitions at the subsidiary level in multinational pharmaceuticals. Moreover, Ostlund and Lindblad (2008) used a similar methodology in a research of cross-border mergers and acquisitions in the banking sector.

Table 3: Previous relevant research and contributions

Study	Context	Findings	Method
Lumka (2003)	Merger between two financial institutions		A case study was used
Bezuidenhout (2007)	The extent to which brand decisions are engaged in M&A during the due diligence process	Brand decisions are not formally regarded by South African corporate advisors when due diligence is undertaken	Qualitative nature and open – ended questions
De Villiers (2008)	Critical success factors in mergers with specific reference to the Absa - Barclays deal	Economies of scale, geographic considerations, finance, economies of skill were amongst the motivators for the transaction	The data used mostly consisted of secondary data, and sources of primary research consisted of personal interviews
Ostlund and Lindblad (2008)	Cross-border mergers and acquisitions in the banking sector – A Swedish perspective	Cultural differences are considered to be a big problem. Cost efficiency gains, revenue efficiencies and diversification were the main motives	Interviews were conducted
Barker (2012)	The role of culture in post-merger performance	There was no dispute that cultural differences have an influence on the performance, but that influence could be positive or	Semi-structured, narrative interviews were conducted

		negative	
Darkwah (2012)	Financing of mergers and acquisitions between rural and community banks in Ghana	The few problems mergers and acquisitions in the industry include excessive financial cost, social obstacles and managerial attitudes.	Qualitative and quantitative research methods
Nene (2012)	Impact of mergers and acquisitions on unemployment in South Africa	Employment patterns show growth in M&A affected companies	Quantitative research testing using analytical and statistical approaches
Smeets, Ierully and Gibbs (2013)	Organisational integration after a merger using an employer – employee dataset covering workers from Denmark	Integration is primarily implemented by assigning high-skilled workers, especially in research and development and management, rather than mixing the workforce.	
Musvasva (2013)	Impact of M&As on the corporate performance of South African listed companies in the financial sector	It was concluded that M&A does not have a significant influence on corporate performance.	Quantitative approach and followed a quasi-experimental research design utilising an accounting study approach

Source: Compiled by the researcher

3.3 STUDY LOCATION

This study was conducted in Johannesburg, South Africa, because this is where all the participants that agreed to participate in the study were based.

3.4 STUDY POPULATION

As stated by Saunders *et al.* (2012), "a population is a complete set of group of members". Visagie (2008, p.55) defines population as "the entire group of persons or set of objects and events the researcher wants to study". The research population for this study included managers, experts and practitioners who have been involved or have knowledge of mergers and acquisitions transactions. The researcher could only access these participants, due to the strict access banks have.

3.5 SAMPLING TECHNIQUE

The non-probability judgemental sampling technique was used, because the researcher selected respondents that had the required information and knowledge. According to Visagie (2008, p.58), in judgemental sampling the researcher is concerned with analysing only determined types of subjects and this sample is selected on the basis of expert judgement. Judgemental sampling can be used when a few people have the knowledge of interest, and it is the only possible sampling technique to obtain information from a particular group of people (Castillo, 2013). Saunders *et al.* (2012) had the same opinion and suggested this approach when a researcher uses its own judgement to carefully choose those who will most be capable to support respond the research question and fulfil the objectives.

As reported by Blumberg *et al.* (2011, p.194) this approach is used when "a researcher selects sample members to conform to some criterion".

The motive to use such approach was that, first, this study was conducted using structured expert interviews. Second, the respondents were selected due to their capacity to provide insights to the research questions based on their understanding, skill and knowledge in mergers and acquisitions.

A judgemental sampling can be used when there is a necessity to perceive what is happening, so that reasonable generalisations can be made (Saunders *et al.*, 2012). Barbour (2008, p.53) concluded, the aim of judgemental sampling "is not to produce a representative sample, but is rather to reflect the diversity and to provide as much potential for comparison as possible". This is exactly what this research aimed to do, which was to explore and provide insights into the motives for bank mergers and acquisitions.

The disadvantages of this method include bias, because the opinions of participants can make the sample unrepresentative, and the data cannot be generalised beyond the sample (Struwig and Stead, 2004, p.111).

According to Black (2010, p.225), judgemental sampling may demonstrate to be efficacious when exclusively restricted number of individuals may be used as main data sources because of the structure of the research design. For example, in this study, the researcher wanted to find out the motives for bank mergers and acquisitions, therefore, the only people who can give the researcher significant information are the individuals who have been involved or have knowledge in this field. Judgmental sampling may be used when a limited number of individuals have the knowledge of interest. It is the only reliable sampling technique to obtain information from a specific group of people.

Judgemental sampling is appropriate for this study because, the number of participants interviewed have the knowledge of interest, and this sampling is the only viable technique to obtain information from a particular group of individuals.

3.6 SAMPLE AND SAMPLE SIZE

Apart from choosing a research topic and suitable research design, no other research duty is more important to generating convincing research than achieving a reasonable sample. Making sure there is sufficient data is a predecessor to reasonable review and description (Marshall, Cardon, Poddar and Fontenot, 2013, p.11).

In this study, the researcher wants to know what leads companies to engage in strategies such as mergers and acquisitions, and the only people who can provide the researcher with this information are individuals who were involved in such transactions or have a complex knowledge of the subject. For this research, a sample of five experts who have been involved and have the knowledge in mergers and acquisitions deals in the past was used. According to Visagie (2008, p.56), ‘‘a sample is the small group of elements that have been selected by the researcher to obtain the information that will enable him/her to make an estimation of averages’’. Respondents were deliberately selected based on their knowledge and enthusiasm to be involved in the study.

Mason (2010), indicated that samples for qualitative research are usually much smaller than those used in quantitative studies. As the research progresses, more information does not really lead to more data since one incident of a piece of data is enough to make sure, it is accepted as part of the analysis structure. Qualitative research is labour exhaustive, analysing a big sample may be lengthy and many times simply unsuitable. Mason (2010) further adds, that, qualitative samples should be big as much

to ensure most or all of the awareness that might be significant are discovered, but at the same time if the sample is very big, data becomes monotonous and ultimately unnecessary.

There are various elements that have an effect on sample size in qualitative studies, researchers usually use saturation as a model to collect data. Jette, Grover and Keck (2003), argued that knowledge in a particular field can decrease the number of candidates required in a research. According to Marshall *et al.* (2013, p.11) saturation is achieved when the researcher collects data to the point of reducing returns when nothing recent is included. Therefore, considering reasonable sample size is exactly concerned with the idea of saturation.

Some researchers made use of a similar number of interviews to investigate complex topics. Guest *et al.* (2006, p.78) in a study the conclusions indicated that data saturation happened at an early phase. Thirty-six codes were established for the study, thirty-four were established from the first six interviews and thirty-five were established from twelve. The finding was that, studies with high levels of uniformity among the population, a sample of six interviews may be adequate to allow progress of relevant topics and convenient interpretation.

Bezuidenhout (2007) in a research about brand in mergers and acquisitions in South Africa, made use of exploratory research. Six corporate advisors, altogether associated with R234 Billion worth of mergers and acquisitions activity were selected.

Qualitative research methodologists indicate overall recommendations for a sample size of interviews. These recommendations differ from each methodologist, for instance, in grounded theory studies, Creswell (2007) suggests at least twenty to thirty interviews, for phenomenological studies, ranges involve roughly 6 to 8 and 6 to 10. Case studies are among the most complicated kinds of qualitative research to categorise. Yin (2009) suggests at least six interviews. The problem with these concepts is that they fail to explain any rationale.

3.7 DATA COLLECTION INSTRUMENT

After receiving the ethical clearance from the Ethics Committee of the University of KwaZulu-Natal, the researcher begun to gather data. As reported by Saunders *et al.* (2012), data can be collected by using structured, semi-structured and unstructured interviews. Visagie (2008, p.46), argued that “structured interview contains a pre-determined set of questions which uses the same wording and order of questions”. In semi-structured interviews, structured elements are asked to all respondents and there are open-ended questions with no restrictions on how the respondent can answer. The disadvantage of this interview is that it needs to have enough participants to make general comparisons and interviewing skills are required. In unstructured interviewing broad questions are

usually asked. The interviewer formulates questions spontaneously during the interview. The disadvantage of this type of interview is that the freedom the researcher experiences can introduce bias into the research study, and it takes a great deal of time to analyse (Visagie, 2008, p.46). For the aim of this study, structured in-depth interviews were used.

According to Saunders, Thornhill and Lewis (2009, p.320) "structured interviews use questionnaires based on a standardised set of questions and it is referred as interviewer-administered questionnaire". There is a social cooperation between the researcher and the participant, as the researcher will give explanations and read the questions absolutely as they are written and in the same tone of voice to avoid bias. The benefit of using interviews is that it helped the researcher collect sound and trustworthy data that were related to the research questions and objectives.

The reason for using this method is that structured interview demands fewer interview skills, are less difficult to analyse than unstructured interviews and standardised questions are asked in a fixed sequence to all participants and provide consistent information which will ensure the comparison of data, according to Visagie (2008, p.46). McLeod (2014), stated that structured interviews are simple to reproduce as a determined set of closed questions are used, which are simple to quantify, in other words, it is simple to test for reliability. This is also known as a formal interview. The significant value in the interview is the extent of knowledge obtained from the participant, questions can be explained, the identity of participants is known and the interviews have a good response rate. The objective is to obtain a diverse idea of the topic and distinct point of view to come to a useful conclusion. The interviews were conducted with professionals that possess extensive knowledge within the area of merger and acquisitions (Visagie, 2008, p.43).

Commenting on this type of research instrument Kvale (2007, p.38), stated that an exploratory interview is normally open, with limited pre-planned structure. In such situations, the interviewer presents a topic, an area to be charted or a complicated problem to be uncovered, follows up on the subject's answers and looks for new information and new perspectives on the topic. Blumberg (2011, p.503) agreed and stated that "in a structured interview the questions and the possible answers are defined ex-ante".

The research instrument suited the research methodology and enabled the researcher to answer the research questions and fulfil the objectives of the study in the depth of the answers, rather than quantity (Saunders *et al.*, 2012).

3.8 RELIABILITY AND VALIDITY

To make the reliability and validity of the questionnaire better, the researcher conducted a structured, face-to-face pilot test interview based on the interview questions set out in Appendix 1, with a participant. The respondent was not notified that the interview was a pilot test. Although, one respondent was used for the pilot test, the researcher decided that it was enough as that specific respondent has extensive experience in conducting mergers and acquisitions. Saunders *et al.* (2012) recommend this approach to see if the questionnaire functions, if respondents have no difficulties to answer the questionnaire and that answers will be recorded accurately.

As stated by Saunders *et al.* (2009, p.156) reliability is related to "the extent to which your data collection techniques or analysis procedures will yield consistent findings".

The fact that the researcher conducted interviews with specialists in the area of mergers and acquisitions makes the findings more reliable and realistic and the researcher knows the identity of participants. The use of tape recorders, allows the researcher to analyse the scripts over and over again. The benefit of using interviews is gained from the flexibility the researcher will have to explore the complexity of the topic.

Participant bias: to overcome this problem the researcher ensured the anonymity of respondents at all times during the interview.

Participant error: the researcher minimised this threat by conducting the interviews whenever participants felt they were ready to respond the questions.

Interviewer bias: the researcher lessened this threat by avoiding making too many comments and non-verbal behaviour, so that it did not influence the manner interviewees respond to the questions being asked.

According to Saunders *et al.* (2009, p.157) validity "is concerned with whether the findings are really about what they appear to be about".

The researcher tried to conduct all the interviews in a certain period of time. The way the researcher collected data (tape recorders) yielded valid data. This was determined by the similarity in the answers from interviews provided by participants. The questions during the interviews were clarified; meanings of responses probed and the topic, mergers and acquisitions, was discussed from a variety of angles.

The impact of interview's location: the researcher chose a location that was suitable for respondents, where they felt comfortable and where the interview was not likely to be interrupted.

Qualitative research can involve various procedures for example case studies, ethnography and participant observation, grounded theory, biographical and participative inquiries. In the field of qualitative business research, the case study methodology is the most common procedure (Pauwels and Matthyssens, 2004). Likewise, there is a variety of particular procedures for gathering empirical material, for example, interviewing and observational methods. The examination of text-based in-depth interviews is the most extensive employed methodology for business research, as published materials in important journals, for example Journal of International Business Studies (JIBS), Management International Review (MIR) and Journal of World Business (JWB). According to Sinkovics, Penz and Ghauri (2008) there are many software tools available for qualitative researchers, but they are not completely included. Some researchers have expressed concerns associated to the possible theoretical, political and methodological value of computer use in qualitative research (Jack and Westwood, 2006). It is also argued that the simplicity with which text may be coded in qualitative text analysis programmes and eventually be included into statistical software packages for instance SPSS or SAS provides an essential desire to quantify qualitative research. There is also a concern that CAQDAS (Computer Assisted Qualitative Data Analysis Software), which reinforces and inflates the propensity for the code and recover procedure that establishes most procedures to qualitative data analysis, can originate in the fragmentation of written information on which researchers work and it can minimise researchers from giving innovative contribution (Bryman and Bell, 2003).

Trustworthiness of the study was provided by achieving the following techniques described by Loh (2013, p.5):

Credibility (internal validity): engagement with participants (this was achieved by describing the objectives of the research before the interviews began), triangulation (the researcher used multiple data sources in the study to produce understanding of the topic), peer debriefing and archiving of data (the researcher archived all the recordings and transcripts on a personal computer).

External validity: it was achieved by providing a thick description of the study and its participants to allow the readers to understand the research.

Reliability: during the interview data collected were recorded on audio-tape and notes were taken simultaneously by the researcher to enrich the audio-recording.

3.9 NUMBER AND LENGTH OF INTERVIEWS

In line with the research ethical guidelines, the interview procedure began with the interviewer describing to respondents the objectives of the study, the methodology to be used, explaining to respondents that their contribution is optional and they are free to withdraw at any time during the

interview and explained that their personal answers will be treated confidentially through the use of anonymous quotations (Saunders *et al.*, 2012). Subsequently, each respondent was asked to sign a consent document to participate in the research acknowledging the points set out above, before the commencement of the interview.

Some of the interviews took approximately thirty minutes although some were slightly longer. No follow-up interviews were conducted with respondents as the answers were clear, and any ambiguities were explained during the interview. The researcher recorded the in-depth interviews on all occasions. The decision to audio-record the interviews enabled the researcher enough time to listen cautiously to the answers throughout the interview while taking notes. Another justification to audio record interviews is, it gave the researcher the opportunity to listen to the answers many times following the interviews, while analysing the answers. This helped with triangulation and therefore, the reliability of data strengthened (Saunders *et al.*, 2012).

As soon as the interview was completed, the researcher saved the recordings on a computer in line with the name of each participant, as well as the date. Afterwards, each recording was transcribed using Microsoft word and the transcripts were also saved on a computer in line with the interviewee name and the date of the interview. Hence, the data collected included audio recordings of the interviews and the typed transcripts.

3.10 DATA ANALYSIS

The researcher used content analysis technique to analyse the data collected and the various themes that came from the interviews. Patterns were identified in the answers provided in the interviews, and then it was organised into logical categories that summarised the text and brought significance to the text.

Cooper and Schindler (2011, p.295), argue that “content analysis is convenient for all research approaches working with written data. It may be used to examine the transcripts of qualitative interviews, but it may also be used to analyse documents and other forms of secondary written data”.

The process of content analysis is similar to the process of any research. Cummings and Worley (2009, p.130) explained the procedure of content analysis in this way: “firstly, answers to a certain question are read to have knowledge of the range of statements made and to decide, if the responses are occurring over again. Moreover, based on these comments, topics are generated which express recurring comments. Themes reinforce various answers that essentially say the same thing. Finally, the participants’ responses to a question are then placed into one of the determined groups. The most frequently themes are those where the categories have the most answers”.

The procedure described above is comparable to the steps set out in Blumberg's (2011) data analysis process, which are as follows: define the population of sources and design a sampling procedure, followed by the coding procedure and ending with the use of a software package to automate coding.

The researcher used the following steps to carry out data analysis:

First of all, the audio-recorded responses of each participant per research question were transcribed and filed electronically on a computer in accordance with the name of the participant and the date of the interview. These were also printed out and saved in hard copies in a data file. This step constituted the organisation of the raw data (Griffiths, 2010).

Thereafter, the researcher read through all the transcripts, per participant and for each research question, to gain familiarity with the data (Griffiths, 2010). In that process, the researcher started making notes organising the data per research question and per participant into certain emerging categories and themes (Griffiths, 2010).

Finally, an iterative process followed whereby all the preliminary categories and themes, of research question and from each participant, were organised into further meaningful categories and themes. This iterative process was long and arduous and continued until all the responses, per participant, per research question, were organised and synthesised.

Transcription involves a translation or alteration of sound or image from recordings to text. It is a critical process, where particular aspects of communication and interaction are transcribed (Davidson, 2009, p.38). Bird (2005), describes transcription as a beneficial way of turning recorded interview data into transcripts. However, methodologically speaking, transcription is the act of stating genuine spoken text in written conversation as well as explaining and analysing illustrations of these data. A transcription represents a solid act of data presentation, examination and explanation in a manner that it significantly affects the way data is conceptualised. Transcripts should be well organised, analysed and explained to illustrate a set of social actions.

3.11 TRIANGULATION

As a result of different methods of data gathering, triangulation was used in this study. The researcher audio-recorded the interview to have enough time to listen cautiously to the answers throughout the interview while taking notes. Blanche and Durrheim (1999, p.128) define triangulation as "collecting material in as many different ways and from as many diverse sources as possible". Suter (2012, p.350) defined triangulation as "a method used in qualitative research that involves cross-checking multiple data sources and collection procedures to evaluate the extent to which all evidence

converges''. The researcher, therefore, approached the correct understanding of the problem statement by triangulating the findings of the study with those of past studies related to bank mergers and acquisitions. The reason for various sources of data is corroboration and connecting evidence. Another reason that lead the researcher to use different research methods was mainly because of a few questions could only be answered by discussing them.

According to a report on Write (2015), data triangulation validates data and research by cross-checking the same information. Triangulation strengthens the research because data has increased credibility and validity. Wilson (2014, p.74), argues that triangulation ''refers to using more than one particular approach when conducting research to obtain rich and full data, to help confirm the results of the research''.

In this research, triangulation was important because the various sources used, provided verification and validity while complementing similar data and more comprehensive data was obtained.

3.12 ETHICAL CONSIDERATIONS AND CONFIDENTIALITY

Ethics studies the correct behaviour and deals with the question of how to conduct research in a moral and reliable manner. Hence, ethics do not deal with the question of how to use methodology in the correct manner to conduct sound research, but deals with the question of how the accessible methodology may be used in the correct way (Cooper and Schindler, 2011, p.113).

It was the researcher's duty to design the questions in a way that, the safety of all interviewees is protected. It would be not ethical to demand interviewees to enter an environment where they would feel threatened.

The respondents had full knowledge and information of what the study was about before the interviews commenced. Respondents were aware that the interview was confidential. The researcher made the data anonymous by not mentioning participant's name or organisation during the recording of the interviews and data analysis.

As an audiotape was used, the respondent's prior permission was required. The reason for recording the interview was explained, because it will help the researcher check whether the respondent's views were recorded correctly. By giving incorrect information about the objectives of the study, deception of research participants, was avoided.

The quality of the data and its understanding was the significant principle, this entails that no exclusions or fraud with the gathering or analysis of data should happen during the study. Concerning the respondents, politeness for the individual is important.

3.13 SUMMARY

The primary aim of this research was to find out the motives for bank mergers and acquisitions. To achieve this goal, the sources of data to be used and the explanation of the research methodology relevant were presented in this chapter. The research followed a qualitative research approach based on exploratory research design. The target population consisted of all managers, experts and practitioners working in public and private companies who have been involved or have knowledge of mergers and acquisitions transactions. Content analysis was used to explore the data gathered for the coding of transcripts and the various themes that came from the interviews. The approach used in this study was accepted based on existing research that followed identical procedures effectively to study mergers and acquisitions.

In the next chapter, results collected from interviews are presented. The demographics of participants are described, and thereafter the results by research objective are discussed.

CHAPTER 4: RESULTS

4.1 Introduction

This section presents the key outcomes gathered throughout the research process. As stated in the previous chapter, the population of the study included managers, experts and practitioners working in public and private organisations in South Africa, who have been involved in or have knowledge of mergers and acquisitions transactions. The sample included five experts who were intentionally selected, due to their capacity to give comprehension to the research questions based on their understanding, expertise and background in mergers and acquisitions. The experts were selected for their expertise and to share their knowledge, instead of just to represent a big group.

The process followed for the collection of these results is set out more comprehensively in the previous chapter. As indicated this was done through structured face-to-face interviews. In the following sections, this report will present the demographics of the participants. Thereafter, the layout of the results is briefly explained and the presentation of the results follows according to the order of the research objectives.

Thus, the presentation of the results starts with a layout of the findings regarding mergers and acquisitions and some of the motives for these corporate actions. Based on the approach in the literature review, these data are presented according to the categories in the theoretical framework, that is, the report first sets out strategic motives, followed by the financial motives and managerial motives respectively.

4.2 Demographics of the participants

The sampling technique used for the selection of the sample for the purpose of this study has been more comprehensively described in the previous chapter and briefly summarised in the introduction above.

The participants are constituted of one advisor, one manager, one financial journalist, one consultant and an assistant director, all with expertise and experience in mergers and acquisitions in South Africa of over five years. The researcher did not mention the names of participants nor where they work as to preserve the anonymity of the participants concerning the quotations used in this report.

Table 4: Demographics of the participants

Participants	Experience in mergers and acquisitions
1	This participant has 20 years experience in the merger and acquisition advisory market and has worked in private equity for different investment banks.
2	A retired director of the Transaction Advisory Services at one of the big four audit firms in South Africa. His Corporate Finance knowledge involves due diligence analysis, financial performance evaluation, valuations, transactions structuring and execution.
3	This participant is a financial services editor reporting on banks, insurance firms, private equity organisations and any other organisations related issue.
4	Assistant Director at a financial advisory group and some of his specialities include investment banking - M&A (mining) and financial modelling.
5	This participant has experience in deal origination and transaction execution across full corporate finance function, asset management and financial markets experience.

Source: Compiled by the researcher

4.3 Results presentation

The results are demonstrated in accordance with the research objectives described in chapter one. In brief, the research objectives are as follows:

Research objective one: to understand mergers and acquisitions in the South African bank sector and some of the motives for these corporate actions.

Research objective two: to assess the current merger and acquisition activity in the bank sector.

Research objective three: to find out whether or not banks reach their objectives after a merger and acquisition transaction.

Research objective four: to provide some evidence on how mergers and acquisitions activities can build stronger banks.

4.3.1 Understand mergers and acquisitions and the motives for these corporate actions.

The respondents were asked an open-ended question to indicate, the motives that drive companies to use mergers and acquisitions as a corporate strategy. The objective of this question was to understand mergers and acquisitions.

The importance of this question was affirmed by a comment from participant 1 who said the following: *“I think there’s a whole lot of reasons; the first and most important one is it’s a lot quicker to grow through M&A than trying to do it organically. Corporate all need to grow so it’s probably a key strategy of theirs to grow through M&A”*. This participant used two extreme examples to illustrate his point. First, he mentioned Barclays coming into South Africa, instead of them setting up their own branches, they just bought an existing corporation. Second, the participant mentioned Facebook’s acquisition of Whatsapp as a way of removing competitive threats. This line of reasoning was shared by participant 2 who said the following: *“there are lots, but it boils down to growth, it’s a way of achieving growth. It can be a way of buying market share for customers, it can be a way of buying technology, but all of those objectives would be subordinated to the overall thing of achieving growth”*.

Participant 3 stated his response to this question as follows: *“companies merge with or acquire companies to drive synergies and to build scale in their business. They may find that if they tie up the company, it teams up with a rival company there is better efficiency, the business is on a much bigger scale to the market needs”*. The participant further said that, he does not believe in mergers of equals, he believes that a company will always acquire another one.

Participant 4 started his response to this question as follows: *“there are sort of driving reasons behind mergers in a particular point in time differs for various reasons, so I mean the general premise of mergers is growth to sort of get synergies, you sort of buying a business and it is a useful way to use your existing cash and ultimately grow your business”*. In his view, if there are no benefits in doing M&A, the cash should be returned to shareholders or be reinvested into the existing business. Either you grow organically or you grow by acquisition.

Participant 5 gave a rather different answer to the question: *“it’s quite an open-ended question but there are a number of reasons why mergers and acquisitions take place. Number one, obviously for earnings accretion rather than dilution so people want to buy out smaller companies because it enhances their earnings or earnings per share as a result over a period of time you see the business grow. Number two, it’s often a better utilisation of return on cash, if you leave money in the bank account, you can probably get three or four percent on it if you invest that into an investment opportunity. Number three, consolidation in the industry”*. The respondent then gave an example of

life insurance companies that partner upward banks because when they sell you a home loan, they try and sell you life insurance so they cover their home loan with an insurance policy.

Thematic analysis

Why do mergers and acquisitions take place?

Category A - Growth

Participant 1: *''It's a lot quicker to grow through M and A than trying to do it organically''.*

Participant 2: *''It is a way of achieving growth''.*

Participant 4: *''The general premise of mergers is growth''.*

Participant 5: *''people want to buy out smaller companies because it enhances their earnings or earnings per share as a result over a period of time you see the business grow''.*

Category B - Diversification

Participant 1: *''It might be diversifying into different territories.''*

Participant 2: *''It might be for reasons of geographical diversification.''*

Category C - Synergies

Participant 3: *''Companies merge with or acquire companies to drive synergies''.*

Participant 4: *''The general premise of mergers is growth to sort of get synergies''.*

Category D - Consolidation

Participant 1: *''Only the big really strive, so you'll find that consolidation will just get bigger and bigger''.*

Participant 5: *''Consolidation in the industry''.*

Table 5: Some of the key motives for mergers and acquisitions

Rank	Codes	Frequency
1	Strategic motives	7
2	Financial motives	4
3	Managerial motives	1
3	Vertical and horizontal integration	1
3	Remove competition	1

Source: Compiled by the researcher

An interesting point to note about the motives for mergers and acquisitions set out in Table 4 is that the strategic motive was mentioned by all respondents in the study as being frequent. Some motives were mentioned by more respondents than others and some were mentioned by only one participant.

Respondents were then asked the importance of having senior management involved early in the acquisition process. This question was also to understand mergers and acquisitions.

It was interesting to find that participants had the same opinion about how important it is for management to be involved early in the acquisition process. Participant 1 said the following regarding this question: *''I think you would involve them if they're part of the process to look at the acquisition, otherwise, I wouldn't want to spread the word too far. Management got their limits, so they've got to be involved. It's got to start from the top down on both sides. During the process I don't think you want to get too many people involved from the ranks because uncertainty's not good in an organisation, so you've got to almost keep it quite secret until it's the right time''*.

This line of reasoning was shared by participant 3 who said: *''if a merger is done only on recommendation of advisors of management, you may have a bit of a challenge, small things like cultural issues. So management of both companies have got to meet, there's got to be a mutual meeting of minds and strategy and future direction of the organisation''*.

Participant 2 divided the merger and acquisition process into three stages: strategy setting, implementation phase and post-merger integration. His answer to the research question was as follows: *''the process is driven by management. You really want to make sure you've got an experienced acquisition team that do the work to make the deal happen, but you also want to make sure that wherever this acquisition is going to land up that those managers are involved as well from an operational perspective''*.

Participant 4 stated the following: *'you need sort of management on board because they are the ones who are going to drive that value creation, post-acquisition'*. Participant 5 argued that: *'you need to have the relevant people in the room so they can provide the expertise on what they know best. That's why it's important to have management input upfront to then discuss – ok this is what we're capable of doing, this is what we can do, this is what we can't do. That's why having the relevant people involved early on makes it a much easier process as opposed to going all the way down, formulating a strategy and then finding out it's too late'*.

Participants were then asked why some mergers and acquisitions fail to achieve expected returns. This question was also used to address research objective one.

Thematic analysis

Why do some mergers and acquisitions fail to achieve expected returns?

Category A - Synergy

Participant 1: *'they say that they're going to deliver some revenue synergies and then they either don't happen or they don't happen as quickly as people think they're going to happen'*.

Participant 2: *'most M and As have as one of their reasons the creation of synergies and it is possible that those synergies are over-estimated'*.

Participant 4: *'the synergies they are available, but you actually got to go out to work and grab them'*.

Participant 5: *'my experience has been that culture has a massive influence and also the over-estimation of what synergies you can and cannot achieve'*.

Category B - Integration

Participant 2: *'sometimes they underestimate the difficulty of integrating that new business into the existing business'*.

Participant 4: *'the first thing you have got to get right is the integration of the two businesses that you are merging'*.

Participant 5: *'conflicts of interest, post-merger integrations are a massive thing'*.

Category C - Culture

Participant 3: *“when there is a clash of cultures and a clash of egos in a merger, it becomes difficult to drive the strategy of the company”*.

Participant 5: *“my experience has been that culture has a massive influence”*.

Table 6: Why mergers and acquisitions fail to achieve expected returns

Rank	Why mergers and acquisitions fail to achieve expected returns	Frequency
1	Synergies are over estimated	4
2	Post-merger integration	3
3	Clash of cultures	2
4	Failure to do proper due diligence	1
5	Overpay	1

Source: Compiled by the researcher

A factor to consider on Table 5 above is the high frequency of synergies are over estimated. Participant number 1 said, referring to this issue that, *“I don’t think most companies are explicit. They don’t say exactly what they’re hoping for to do in terms of increasing the value. What you will hear is they talk about synergy closed the deal. They say they’re going to deliver some revenue synergies and then they either don’t happen or they don’t happen as quickly as people think they’re going to happen”*. In support of this point, participant number 5 stated in his view, *“there’s a number of reasons but my experience has been that culture has a massive influence and also the over-estimation of what synergies you can and cannot achieve”*.

A theme that attracted the second highest frequency is post-merger integration. Participant number 4 said the following: *“I think the first thing you have got to get right is the integration of the two businesses that you are merging, and thereafter you have actually got to put focus on driving those synergies”*. Participant number 2 put it as follows *“you know people get caught up in a deal and they start to see things they want to see, this is going to be perfect and so on, so it can be that they over-estimate the synergies and then sometimes they under estimate the difficulty of integrating that new business into the existing business”*.

However, participant 3 had a rather different opinion regarding this issue and mentioned the clash of culture as one of his reasons. He went on to say *“many mergers fail because people do not know what*

they are letting themselves into. It's one culture, when there's a clash of cultures and a clash of egos in a merger, it becomes difficult to drive the strategy of the company''.

Participants were then asked about the regulatory structures in the South African banking industry that encourage and discourage mergers and acquisitions. For this question, participants shared rather contrasting views.

Participant number 1 argued that the regulatory structure is not encouraging for mergers and acquisitions, he said the following: *''I think it helps mergers and acquisitions generally to have certainty in terms of the rules. If there are strong rules you know how to play it, if there's no rules, it gets a bit, a little bit messy. You're always going to find company law, stock exchange rules, take over law, Competition Commission''.* He went on to say that *''I think you need the rules in the game to enable, but I don't think it's necessarily going to boost activity if you know what I mean''.*

Participant number 2 shared a similar view: *''I think that it discourages them. Just to be clear, there are a lot of several regulatory authorities that have an influence over all mergers. So mergers take place within the framework of the companies act and within that there is a takeover regulation panel that looks to fair play in mergers and acquisitions. But when it comes to banking mergers, the Reserve Bank has the final say''.*

Participant number 4 put it as follows: *''I think it is very difficult given that our banking sector is very concentrated and our banks are fairly large and sophisticated, so sort of there will be no mergers and acquisitions internally but we have seen foreign companies acquire sort of South African banks or stakes in South African banks''.*

Participant number 5 put the point as follows: *''our financial services sector is highly regulated. That's why you find when the 2008 – 2009 crisis came, our banks were still well capitalised as a result of our strict criteria in terms of the Basel three requirements and the way our banks capitalised, that allowed us to still proceed with business. I think that going forward especially with what's happened with some of the banks recently, you'll find that the regulators are going to become more and more strict in terms of the criteria to lend, and in terms of deploying credit. I think that over time, our South African banking sector will be very well regulated''.*

In contrast participant 3 said: *''I mean you've got the Competition Commission, in other countries they call it the Anti-Trust, the Anti-Trust Authorities, so the Competition Commission has to approve a merger and acquisition. The Reserve Bank in the case of banking may look at whether a merger between two big banks will cause a risk to the financial system''.*

Finally, participants were asked the objectives of acquiring companies.

Thematic analysis

What are the objectives of acquiring companies?

Category A - Growth

Participant 1: *''growth opportunities, looking for opportunities to make them bigger and better''*.

Participant 3: *''to build scale and to grow''*.

Participant 4: *''you can acquire for growth which is the typical premise behind M and A''*.

Category B - Diversification

Participant 1: *''diversify to different territories''*.

Participant 2: *''to enter new markets''*.

Participant 4: *''you getting exposure to new markets or new products or complimentary products''*.

Table 7: Objectives of acquiring companies

Rank	Objectives	Frequency
1	Growth	3
1	Diversification	3
2	Build scale	1
2	Protect market share	1
2	Earnings contribution	1

Source: Compiled by the researcher

As seen in Table 6 above, growth and diversification are ranked highest according to participants' responses. Then, they also mentioned build scale, protect market share and earnings contribution as some of the objectives of acquiring companies.

4.3.2 Assess the current merger and acquisition activity in the bank sector.

Participants were asked to indicate in their opinion the motives for two acquisitions, namely the ABSA and Barclays transaction or Standard Bank and Commercial Bank of China.

In Table 8 the various motives mentioned by the participants for a few bank mergers and acquisitions that have taken place in South Africa is presented in thematic format. First of all, the researcher went over each participant's answers to identify the themes. Then, the researcher identified common themes among the answers of different respondents. Afterwards, whenever a theme was identified by different respondents, the researcher took note. The notes were used to assign the frequency column for each theme which was then used to arrange the ranking for the different themes. The results are on table 8 and are arranged in rank order, with the most mentioned themes, ranked highest, and the least mentioned themes, ranked the lowest.

Table 8: Thematic arrangement of participant's responses to research objective two

Rank	Motives for bank mergers and acquisitions that have occurred in South Africa	Frequency
1	Gateway to Africa	3
1	Strong banking system	3
2	Expansion	2
3	Respected banking regulator globally	1
4	Have a full service offering	1
5	Show off existing investment in Africa	1

Source: Compiled by the researcher

A factor to consider about the themes in Table 7, is the high occurrence of mergers and acquisitions as a gateway into Africa and the strong banking system as a theme that was mentioned as being the motives for a few bank mergers and acquisitions that have taken place in South Africa. Participant 4 said in relation to this issue, that *''large international banks are getting more and more global these days and they are looking to expand their geographic footprint, Africa was the sort of next frontier for most of them, and I think South Africa at that stage more so than ever offered it as a gateway to Africa so the theory was that if they could invest in a local bank such as ABSA, you not only getting a strong South African presence which is, you know less risky given you got this strong regulatory sophisticated banking system but you've also got that footprint into Africa that Barclays had and you also had an ability or platform to drive further growth into Africa''*.

In support of this point, participant number 3 stated in his view that *“some of these institutions like Barclays and Commercial Bank of China; the South African banks are a gateway to get access to the growing market of the entire continent of Africa. South Africa has a strong banking system respected banking regulator globally”*. Participant 5 put the importance of this theme as follows: *“So from what I’ve seen is, financial services companies, so these companies like Barclays, for example, look at them in the UK, they’re actually a mature market. South Africa’s also a mature market but what they do is, they strategically plan ahead so what they say is let’s use South Africa as a springboard into the rest of Africa which is what has happened recently”*.

Finally, participant 1 added the following: *“Barclays were looking to expand. Obviously they’ve had a presence in the African continent. They didn’t have a strong presence in South Africa which is probably now debateable whether Nigeria or South Africa is the biggest economy on the continent, but it would make sense for them to diversify into South Africa. If they’re going to play on the African continent, they probably need to be here. And how will they get in? They can either set up their own operations like a lot of foreign banks have set up over the last ten, twenty years or they could buy one.*

4.3.3 Find out whether or not banks reach their objectives after a merger and acquisition transaction.

Participants were asked to analyse the impact of some mergers and acquisitions in the South African bank sector. When answering this question, most participants used the ABSA and Barclay’s transaction as an example. Participant 1 stated the following: *“It’s been good for ABSA and now we’ve got a very strong controlling shareholder which has got global reach. But I think it’s good for local operations because now they can actually service South African and International corporate on the continent”*. Participants 2 and 3 shared similar views, as they think that mergers and acquisitions in the South African banking sector would increase competition.

This is what participant 2 said: *“I would think it would increase competition because I think Barclays are very hard task masters and one of the things to watch in commercial banking is the cost to income ratio”*. Similarly, participant 3 argued that: *“The advantage that ABSA has is that it’s got access to top technology, experienced bankers with global expertise, so they can be able to leverage off the expertise of their parent, the technology, the skills, their experience and so on. If that happens, they become much more competitive”*.

Participant 4 replied the impact would be that it *“adds ability to banks”*, furthermore he said that *“it also gives sort of opportunities for South African products to maybe get overseas, so it attracts different pools of capital”*. In contrast, participant five had an opinion on cultural perspective when

asked about the impact of bank mergers and acquisitions. He said that: *''a lot of people were not happy about the Barclays transaction because essentially they bought in and everything was fine but after a while everything had to become Barclays, and you can't just go into a place and say you're a going to become a UK business, it doesn't work that way, you've got to understand the environment which ABSA operate in, you've got to understand what drives ABSA, what the culture is in ABSA, what they systems are. Once you understand that, you've got to compromise in terms of what can change, what can't change''*.

Basically, from the answers above it is clear that participants had rather different opinions regarding the issue. Some participants indicated that there would be a cultural shock, while others felt that it will have a good impact as banks will become more competitive. Yet, others feel that it will be good for local operations as they now will be able to service South African and international corporate on the continent.

Thematic analysis

Category A - Positive impact

Participant 1: *''It's been good for Absa and now we've got a very strong controlling shareholder which has got global reach''*.

Participant 2: *''I would think it would increase competition because I think Barclays are very hard task masters''*.

Participant 3: *''If the merger allows for stronger competition, and then it will be good because it means at the end of the day the customer gets a better deal and a better product''*.

Participant 4: *''it attracts different pools of capital''*.

Category B - Negative impact

Participant 5: *''I think from what I've seen is that Barclays came in and they tried to instil that British culture into a very Afrikaans type of business, and as a result of that, a lot of people, core competencies in Absa have left over a period of time''*.

Table 9: Find out whether or not banks reach their objectives after a merger and acquisition transaction.

Participant's views	Frequency
Positive impact	4
Negative impact	1

Source: Compiled by the researcher

As can be seen from Table 8, most respondents argued that bank mergers can have a positive impact in the sector. On the other hand, only one participant believes it will impact negatively. In this particular case, a positive impact would be the fact that there's a shareholder with global reach operating in South Africa, the increase in competition, the impact on bank charges, better deals and products for customers. A negative impact would be the cultural shock.

Participants were then asked the most important factors for a successful acquisition deal that must be considered by the acquirer during the post-acquisition integration phase.

Thematic analysis

Category A - Planning

Participant 1: *''you need to have a clear plan with how long is this going to take?''*.

Participant 4: *''the integration is all about planning and getting it right up front''*.

Category B - Project management

Participant 1: *''you actually need to have a team dedicated to integrating the business''*.

Participant 5: *''the most important thing in any transaction is project management''*.

Category C - Job protection

Participant 1: *''in the South African context, our competition commission is very concerned about job preservation posts the deal''*.

Participant 2: *''It's keeping customers happy and keeping the banks employees happy''*.

Table 10: Important factors during the post-acquisition integration phase

Factors	Frequency
Project team	2
Job preservation	2
Clear plan	2
Keep customers happy	1
Future profitability of the business	1

Source: Compiled by the researcher

As can be seen from Table 9, project team, job preservation and a clear plan were mostly mentioned by participants as important factors to consider during the post-acquisition integration phase. Keeping customers happy and future profitability of the business were also considered as factors.

Participant 5 said the following: *“for me the most important thing in any transaction is project management. Project managers are important because you need to have one line of contact, one party talking, one representative, everything must go through channels, and the moment you lose control of that there, it can kill your transaction”*.

Participant 1 added that *“our competition commission is very concerned about job preservation post the deal. So they’re not going to allow a big merger and acquisition transaction to happen and then you fire like half the people in the business that you acquired. Competition Commission will put conditions on the deal that you have job preservation to close the deal. In terms of what you can do with that business, you are restricted a little bit and I understand it. Unemployment rate is very, very high in South Africa”*.

Regarding having a clear plan participant 4 argued that *“the integration is all about planning and getting it right up front. It’s not an easy job. Some things you are going to hand over straight away, some things you are going to have a process”*.

Participant 2 mentioned *“keeping customers happy and keeping the banks employees happy”* as important factors during the post-acquisition integration process. Finally, participant 3 mentioned *“future profitability of the business and growth of the business”* as factors.

Furthermore, the essential elements required to develop an effective strategic plan to cover post-acquisition business operations were asked to participants.

For this question some participants said that there are no fixed rules and it really depends on the situation. Participant 1 argued that *“sometimes it might make strategic sense to integrate the business with your current operations. Other times it’s maybe better to leave it on its own, an autonomous unit to drive it as itself”*. To support his argument, he gave an example of Adcor which is a listed company in South Africa which is growing quite a lot through acquisition over the last fifteen years: *“They are in the recruitment game. They interestingly are very strong on retaining the brands that they’ve acquired. They keep the brands, they try and keep the people and they try and keep them autonomous. I think the success of the business and the reason you wanted to buy the business is because of their brands, because of their people, because of their focus and you don’t want to lose that”*.

Participant 2 started his answer as follows: *“first question might be, should you change the name?”*. He went on by giving an example using the Barclays – Absa transaction: *“when Barclays came and bought a big chunk of Absa, they didn’t make it Barclays South Africa, they left the Absa name there and it’s complimented with being part of Absa. That would be one decision, do you change the brand name, the identity of the business or do you keep it the same”*. Another decision he mentioned was *“how tightly you integrate the operations of the acquired company”*. Moreover, the need for communication and deal with the management structure were also mentioned as to avoid losing good people.

Participant 3 said the following: *“you have to cut down on duplication. You can try and realign people where there are duplications. Give them other roles if they want to stay. But you need to make sure that there is no duplication of costs. That there are efficiencies and synergies. Define a new culture in the company because there’ll be a clash of cultures”*. On the other hand, participant 4 argued that *“to get integrally involved in the operations so it needs to give it lots of focus and attention the business that’s acquiring and needs to deploy people there typically to the business, it needs to communicate to the management team of the business you have acquired”*.

Participant 5 agreed with those comments and argued the following: *“you need to get people within your firm to actually go there and spend some time there in your target because you want to understand how they operate. So operationally and commercially, you need your operations director to spend a lot of time looking at your target because he will identify and say this is how we operate, this is how they operate. In order for us to integrate correctly, this is what needs to happen and in your due diligence report he should put that in”*.

As noted from the answers above, how to integrate your business operations with the acquired company was mostly cited by participants. Therefore, it is a key element when developing a strategic plan.

4.3.4 Provide some evidence on how mergers and acquisitions activities can build stronger banks.

Firstly, participants were asked the financial risks associated with poor planning for deciding on a deal for mergers and acquisitions. Doing a proper due diligence which is part of the planning process was the issue most cited by participants.

Participant 2 said that *“you got to plan how much due diligence you going to do and how thorough you are, in other words you are taking an educated guess about the level of risks that you are entering into, you got to be very careful in doing the valuation because as I say, one of the reasons for failure is overpaying. It is extremely important that the planning is good and if it is bad, yah, that is a risk”*.

Participant 3 argued that *“you could invest money into a company that is not working and you lose money. You could lose money or you could buy a company that is facing a lawsuit, because you didn’t do your proper due diligence which is part of planning”*. Participant 4 stated the following *“so sort of goes through the due diligence and you not doing your homework so the sort of financial risks are there that you end up with something or primarily is that you have to put more capital into an asset so you end up buying something you had not fully appreciated that you know it needs more money and in the end you aren’t spending 100 million rand, you spending 200 million rand. I mean all I guess you can do is really doing your due diligence”*.

Participant 5 claimed that planning in his opinion, is one of the most important things. He added the following: *“the best way to mitigate risk is to do due diligence. Because when you do due diligence, that’s is where you find the deeper issues, these are the tax issues, these are the financial issues and essentially that becomes a purchase price adjustment on your binding offer, but from an initial planning perspective, you will need to get all sufficient information on the company to be able to assess number one, whether it’s going to be a good investment or not, whether the returns are going to be sufficient, whether you can scale it up and achieve synergies”*.

In contrast, participant 1 indicated that *“there’s always financial risk in deals and that risk could be summarised two-fold. The one could be from using too much debt and acquisition so you’re introducing additional financial risk or it could be that you buy a business which then later on doesn’t perform that well and then you have to keep on funding it”*.

Participants were then asked to provide some evidence on how mergers and acquisitions build stronger banks. For this question, participant 1, 4 and 5 all shared the same vision by saying that access to capital is one of the most important issues to make a bank stronger. Apart from that, participant 1 also added *“access to global expertise, access to research capabilities and contacts”* as how mergers can make banks stronger. Participant 2 identified *“cost sharing”* as the most important

issue. He went on to say: *“one of the biggest things must be cost sharing, because, banks now vary mighty intensive. It requires a lot of investment and a lot of innovation as you see all the banks had to come up with apps for your Apple, Ipad or whatever and so to be competitive there is a lot of innovation involved which applies a lot of cost”*.

On the other hand, according to participant 3, banks become stronger through mergers by acquiring new services and entering new markets.

Thematic analysis

Category A - Capital

Participant 1: *“You’ve got access to Barclays’ research capabilities, contacts in fact, you’ve also got access to its capital base”*.

Participant 4: *“so capital is one if you got sort of a meaningful shareholder of reference sitting at the top, it can definitely add sort of value”*.

Participant 5: *“if you’ve got a bank that’s got a capital adequacy ratio of like thirty-two percent for argument sake, that’s a very good capital ratio”*.

Table 11 shows common themes between the responses of various participants.

Table 11: Thematic arrangement of participant’s responses to research objective four

Rank	How mergers and acquisition activities can build stronger banks	Frequency
1	Access to capital	3
2	Access to global expertise	1
2	Access to research capabilities	1
2	Contacts	1
2	Cost sharing	1
2	Acquisition of new services	1
2	Enter new markets	1

Source: Compiled by the researcher

4.4 CONCLUSION

This chapter examined mergers and acquisitions and some of the motives for these corporate actions. According to participants' responses, the researcher concluded that strategic motives are the main reason for mergers and acquisitions. Then, participants were asked to give their opinions on a few bank transactions that have occurred in South Africa, and the most common answers were that South Africa is mainly used as a gateway to the rest of Africa and that South Africa has a well-regulated bank system. According to how these transactions have impacted the banking sector, most participants replied that it has been a positive impact. Finally, when participants were asked to discuss how mergers and acquisitions build stronger banks, the majority replied that access to capital was the main cause.

The following chapter examines the outcomes in the context of the literature review.

CHAPTER 5: DISCUSSION

5.1 INTRODUCTION

The objective of the study was to perceive the significance of mergers and acquisitions and some of the motives for these corporate actions by answering the research objectives described in chapter 1. The results of each objective are presented in chapter four. This chapter examined and evaluated the results in details within the context of the literature review.

For an easier understanding, the outcomes were examined and evaluated according to each research objective. The type of the research questions was open-ended and this gave respondents the chance to state and examine some aspects that, in their experience and use their knowledge and expertise as a basis, they considered applicable and essential, first, for the understanding of mergers and acquisitions and second, to assess the current merger and acquisition activity in the bank sector.

The results presented in chapter four followed a thematic approach, whereby the answers of each research objective, per respondent, were organised into relevant themes that split the answers of different respondents. The following section of this study explores these outcomes in more details.

5.2 UNDERSTAND MERGERS AND ACQUISITIONS AND THE MOTIVES FOR THESE CORPORATE ACTIONS

In chapter two, a review and discussion of the considerable academic research which has been conducted, regarding the motives for mergers and acquisitions is presented. Furthermore, the literature review indicated, in spite of numerous years of research in the merger and acquisition field, there have been many likely motives which were considered as reasons why companies choose mergers and acquisitions as a way of growth (DePamphilis, 2008).

Most of the participants mentioned growth as a motive for mergers and acquisitions. This view is supported by the literature in chapter 2, by Gaughan (2011), who says that companies looking to grow have an option between internal or organic growth and growth through mergers and acquisitions. This is what participant 2 said: *“there are lots, but it boils down to growth, it’s a way of achieving growth. It can be a way of buying market share for customers, it can be a way of buying technology, but all of those objectives would be subordinated to the overall thing of achieving growth”*.

Indeed, that is correct. In the researcher’s opinion, when companies engage in mergers and acquisitions transactions, the principal target is to grow. The reasons for mergers and acquisitions are

several, varied and complex (Gaughan, 2011; Karagiannidis, 2010; DePamphilis, 2008; Focarelli *et al.*, 2001; Cantwell and Santangelo, 2002).

The researcher found in the results that, it is faster to grow by acquisition than grow organically. Companies need to grow, so they use mergers and acquisitions as a strategy to achieve their objectives. Sometimes, an organisation's market is in one part of the country but they want to extend into other areas. For example, when Barclays acquired ABSA, the objective was to expand into Africa. Sometimes, it is faster and less dangerous to expand geographically by acquisitions than by internal development. In addition, companies must have knowledge of the new market if they want to be successful, that is why this kind of strategy can be the fastest and lowest in risk. The findings in this study are in accord with previous findings by Gaughan and Karagiannidis concerning growth as merger strategy. Karagiannidis (2010) in a study stated that internal growth may be time consuming and an unpredictable procedure, while growth through mergers and acquisitions can be much quicker. Through mergers and acquisitions, organisations can expand in their own market or can expand outside their market.

Another motive that was mentioned by participants is synergy. According to Karagiannidis (2010), "synergy is a corporate combination to be more profitable than the previous individual firms". Participant 3 concerning synergy had the following opinion: *"Companies merge with or acquire companies to drive synergies and to build scale in their business. They may find that if they tie up the company it teams up with a rival company there is better efficiency, the business is on a much bigger scale to the market needs"*. This view is supported by DePamphilis (2008), who argues that synergies occur when two merging organisations generate more shareholder value than if they were managed individually, through development in operating efficiency.

Synergy is among the most popular reasons for mergers and acquisitions and it is an aspect also found in research done by Tuch and O'Sullivan (2007, p.141) who stated that "in most instances the rationale of the acquirer is based on the promise of increasing shareholder wealth from a variety of sources, including greater synergy from the combined organisation".

Diversification is also an important part of mergers and acquisitions to take into consideration. Focarelli *et al.* (2001), argue that diversification is used in order to meet customer demands in a growing international market with increasing competition. For instance, when banks engage in mergers and acquisitions they become bigger, and it means they can satisfy a larger customer base and they can also offer a wider range of products. Participant 1 said the following in relation to diversification: *"it might be diversifying into different territories so you often see it's much quicker to go and buy a player in that market than to try and understand the rules of the game yourself, so you see a lot of that"*.

This aspect of diversification is also found in research done by Osae (2010, p.13) who stated that “diversification is a strategy of making mergers and acquisitions outside a company’s core primary business, as well as geographically”. He added that, geographic expansion offers the possibility to become an important international competitor concerning permission to use resources and exposure to more beneficial political and labour climates. Gaughan (2011), in a study found diversification as a merger strategy and added that “this motive played a major role in the mergers and acquisitions that took place in the third merger wave – the conglomerate era”. During that wave, companies most of the times looked to diversify by taking over other organisations, instead of through internal expansion.

Thus, it can be concluded that the motives referred by respondents in this research and the motives identified in the literature are similar, the results actually add to the existing literature. This is a good outcome. The literature has indicated that the motives for mergers and acquisitions are numerous, diverse and complex (Gaughan, 2011; Karagiannidis, 2010; DePamphilis, 2008; Focarelli *et al.*, 2001; Cantwell and Santangelo, 2002). Importantly this study also adds to the literature by Ostlund and Lindblad (2008), Karagiannidis (2010) and Mafihlo (2006).

Table 12: Comparison of reasons for mergers and acquisitions

Reasons for mergers and acquisitions mentioned in the study by participants	Reasons for mergers and acquisitions identified in the literature
Strategic Motives: <ul style="list-style-type: none"> • Growth • Diversification • Consolidation • Synergy • Vertical and horizontal integration 	Strategic Motives: <ul style="list-style-type: none"> • Growth • Synergy • Diversification
Financial Motives: <ul style="list-style-type: none"> • Enhance shareholder value • Useful way to use existing cash • Earnings accretion • Better utilisation of return on cash 	Financial Motives: <ul style="list-style-type: none"> • Tax Considerations
Managerial Motives: <ul style="list-style-type: none"> • Hubris 	Managerial Motives: <ul style="list-style-type: none"> • Hubris

Other: <ul style="list-style-type: none"> • Remove competition • Bigger scale to the market needs 	Other: <ul style="list-style-type: none"> • Market Power • Cross-Border Merger and Acquisitions
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Source: Compiled by the researcher

This table provides a snapshot of the similarities and differences between findings from participants and the literature regarding mergers and acquisitions. The key differences are about financial motives and other motives. On the other hand, it can be noticed from Table 4 that there are also certain similarities between findings from either side. Johnson *et al.* (2011), analysis of literature on mergers and acquisitions showed that the three primary motives for mergers and acquisitions are strategic, financial and managerial motives. These are more or less the same as those mentioned by participants in Table 11. As set out above there are certain strategic motives for mergers and acquisitions and these are growth, diversification, synergy, consolidation, and vertical and horizontal integration as described by participants. There are also financial motives, though what the researcher found from participants is different from what is in the literature, and these motives are enhanced shareholder value, useful way to use existing cash, earnings accretion and better utilisation of return on cash. Then, there is managerial motive, more specifically hubris which was mentioned by both in the literature and participants. Lastly, there are other motives which the participants had a different opinion in relation to what was found in the literature. The participants referred to remove competition and bigger scale to the market needs, while the researcher found in the literature market power and cross-border mergers and acquisitions.

Participants were then asked the importance of getting senior management involved early in the acquisition process. This question was also to understand mergers and acquisitions.

This question discusses and analyses in detail the importance of management in the acquisition process.

All participants mentioned that management has to be involved early in the acquisition process. Participant 4 stated the following: *'you need sort of management on board because they are the ones who are going to drive that value creation, post-acquisition'*. This statement is in line with the context of the fact that all participants mentioned the importance of management in the acquisition process. In the researcher's view, it is very important to involve management in the acquisition process because, they are the ones who are going to run the business after the merger or acquisition, managers are involved in daily activities of the business so it is easier for them to identify small problems during the integration of cultural issues, so it does makes sense to involve them.

This line of reasoning was shared by participant 3 who said: *''if a merger is done only on recommendation of advisors of management, you may have a bit of a challenge, small things like cultural issues. So management of both companies have got to meet, there's got to be a mutual meeting of minds and strategy and future direction of the organisation''*.

Participants were then asked why some mergers and acquisitions fail to achieve expected returns.

According to DePamphilis (2012, p.44) there is not a particular element to be the reason for mergers and acquisitions failing to meet expectations. However, a few clarifications have been provided that are frequently used to describe failure: overpaying, the slow pace of post-merger integration, misreading the new company's culture and not communicating clearly.

As can be seen from Table 5 in the results section, synergies are over estimated is an important factor in respect to the cause of mergers and acquisitions failing to meet expectations, as almost all participants mentioned it during the interviews. The over estimation of synergies is, therefore, an important issue when mergers and acquisitions fail to achieve expected returns. This is because companies set aggressive targets, by making general evaluations based on previous transaction publishing, without examining if the value of both companies is reasonable. According to a report by Miles, Borchert and Ramanathan (2014, p.1), *''overestimating synergies is the second biggest cause of disappointing deals''*.

Furthermore, the researcher found in the results that when mergers and acquisitions fail to achieve expected returns it could be that the integration of the two businesses did not go well. Failure to reach integration in time, many times leads to customer weakening, loss of important employees and failure to realise expected synergies. The findings in this study are in agreement with previous findings by Nguyen and Kleiner (2003) who pointed out that the reasons why integration fails is due to inappropriate strategy, absence of clear vision, cultural differences and delays in communication.

Some respondents spoke of a clash of cultures as an issue that could be a factor when mergers and acquisitions fail to achieve expected returns. For bank mergers and acquisitions to be as efficient as possible, cultural differences should be taken into consideration and consciously working to integrate them early in the integration process. Participant number 3 said that *''when there is a clash of cultures and a clash of egos in a merger, it becomes difficult to drive the strategy of the company''*.

This argument is supported by Bligh (2006) who argued that organisational culture is important to succeed or fail in a transaction. Denison *et al.* (2011) also adds that *''post-merger integration experience can to some extent close the cultural gap, but top management must think carefully about the sensitivities and make a plan to create a merged culture for the best chance of success''*.

Finally, participants mentioned failure to do proper due diligence and overpay as reasons why mergers and acquisitions fail to achieve expected returns. Due diligence and overpay are also identified in the literature by De Villiers (2008) and DePamphilis (2012) respectively. When merging companies fail to ensure proper due diligence, there is a high risk of finding trouble ahead, because you might be acquiring a company that has tax related issues, that you are not aware of. On the other hand, when you make rushed decisions and you do not really estimate the value of your target, then you might overpay.

Participants were then asked about the regulatory structures in the South African banking industry that encourage and discourage mergers and acquisitions.

According to Davids and Hale (2012, p.2) for a long time, South Africa has had a structure of trade controls in place, with the objective of supervising the flow of capital in and out of the country. Those regulations many times play an important role in the way in which merger and acquisition transactions in South Africa, specifically cross-border transactions are structured. The researcher found from the interviews that those regulatory structure discourage for bank mergers and acquisitions, as participant number 1 put it *'' I think it helps mergers and acquisitions generally to have certainty in terms of the rules. If there are strong rules you know how to play it, if there's no rules, it gets a bit, a little bit messy. You're always going to find company law, stock exchange rules, take-over law, Competition Commission''*. The participant went on to say that *''I think you need the rules in the game to enable, but I don't think it's necessarily going to boost activity if you know what I mean''*.

Even though, the regulatory structure does not encourage for bank mergers and acquisitions, South Africa still has a very regulated and stabilised financial sector. The country's big banks saw combined earnings by 13.1 per cent for the six months ended 30 June 2014, as reported on CNBC Africa (2015) by Matsilele. Participant 5 shared a similar view and said: *''our financial services sector is highly regulated. That's why you find when the 2008 – 2009 crisis came, our banks were still well capitalised as a result of our strict criteria in terms of the Basel three requirements and the way our banks capitalised, that allowed us to still proceed with business''*.

5.2.1 Conclusion

The aim of research objective one was to understand mergers and acquisitions and the motivations for these corporate actions.

The researcher found, according to participants' point of view, strategic motives for mergers and acquisitions and these are growth, diversification, synergy, consolidation, vertical and horizontal integration. There are also financial motives and these motives are enhanced shareholder value,

resourceful ways to use existing cash, earnings accretion and better utilisation of return on cash. Then, there is managerial motive, more specifically hubris. Lastly, participants discussed removing competition and developing on a bigger scale to the market needs.

Furthermore, it was established that senior management has to be involved early in the acquisition process and most mergers and acquisitions fail to meet expectations because synergies are overestimated. The regulatory framework does not encourage for bank mergers and acquisitions because of its strict rules.

5.3 ASSESS THE CURRENT MERGER AND ACQUISITION ACTIVITY IN THE BANK SECTOR

The main drive of this research objective was to assess the current merger and acquisition activity in the South African bank sector, namely the ABSA and Barclay's transaction or Standard Bank and Commercial Bank of China. The motivation for this research objective originated from the fact that, since South Africa's entry into the open economy there has been limited literature regarding bank mergers and acquisitions in South Africa.

Participant 1 expressed this point as follows: *''Barclays were looking to expand. It would make sense for them to diversify into South Africa. If they're going to play on the African continent, they probably need to be here. And how will they get in? They can either set up their own operations like a lot of foreign banks have set up over the last ten, twenty years or they could buy one''*.

These days, most companies are using diversification as a way to meet customer demands in this growing international market with increasing competition. Customers regularly demand alternative ways of carrying out their financial transactions and investments.

Now it could be argued that the fact that South Africa has a strong banking system and a respected regulator globally, as described by participant 3 it makes the market attractive to big players like Barclays and the Commercial Bank of China wanting to invest in the country and also use South Africa as a gateway to other countries in Africa.

Likewise, participant 4 said the following: *''large international banks are getting more and more global these days and they are looking to expand their geographic footprint, Africa was sort of the next frontier for most of them and I think South Africa at that stage more so than ever offered it as a gateway to Africa so the theory was that if they could invest in a local bank such as Absa, you not only getting a strong South African presence which is, you know less risky given you got this strong regulatory sophisticated banking system but you've also got that footprint into Africa that Barclays*

had and you also had an ability or platform to drive further growth into Africa. So the alternative was for Barclays to set up their own bank. Now you know that is particularly difficult and time consuming. Absa was someone they could buy right then and there with this strong footprint and the opportunity for further growth into Africa''.

Similarly, in a study about the impacts of bank mergers and acquisitions on bank behaviour by Promptak (2009), it was found that the factors facilitating European banking mergers and acquisitions involve the internationalisation of the financial system, technological progress, regulatory improvement, the inception of the euro and the decline of country-specific obstacles for instance, language and culture.

5.3.1 Conclusion

To summarise, the problem that this research objective attempted to answer was to assess the current merger and acquisition activity in the South African bank sector. This research objective generated a diverse range of opinions which are set out in Table 7. The principal contribution of this research is to the area of understanding in the South African banking sector. The results found in the literature and those found in the study are different, as the contexts in which the studies were conducted are different. Most studies on bank mergers and acquisitions the researcher found were done in the USA and Europe, and for this study the researcher is mainly focusing on the South African context. However, this will not have a negative effect on the outcome of the results, as it will add to the South African literature which lacks academic research on bank mergers and acquisitions.

Even though, it is clear that what the researcher found in the literature is different to this study, the results of this study do answer the research objective.

With this background, the next part of this study examines the outcomes of research objective three on whether or not banks reach their objected motives after a merger and acquisition transaction.

5.4 FIND OUT WHETHER OR NOT BANKS REACH THEIR OBJECTIVES AFTER A MERGER AND ACQUISITION TRANSACTION

This research objective is concerned with the impact of mergers and acquisitions in the South African bank sector. In order to successfully reach their objectives, banks need to consider the problems of mergers and acquisitions and how to limit its negative effects.

In this study, the researcher found cultural differences as one of the most important problems, which can result in great misunderstandings and also costs. It is important for banks to understand the market in which it operates and how customers react to different offers. This is what participant 5 said regarding cultural differences: *''I think from a cultural perspective, there were a lot of people that were not very happy about who worked at ABSA. They were not very happy about the Barclays transaction because essentially they bought in and everything was fine but after a while everything had to become Barclays, and you can't just go into South Africa from UK – You're going to become a UK business – it doesn't work that way, you've got to understand the environment which Absa operate in, you've got to understand what drives Absa, what the culture is in Absa, what the systems are, and once you understand that, you've got to compromise in terms of what can change, what can't change''*.

As mentioned in the literature by Bligh (2006), organisational culture is essential to the success or failure of a deal. This view is also supported by Tanure *et al.* (2009), who discovered that cultural differences are dangerous to efficient integration of post-acquisition proceedings because of incompletely shared understandings and that 85 percent of the mergers and acquisitions failure estimate is associated with the negligence to control the actual problems of cultural integration. Even though, some literature state that mergers and acquisitions are unprofitable and lead to failure, this particular issue needs to be emphasised. Whether the bank will turn the costs of adjustments and integration into something profitable or not, will depend a lot on the understanding of each other's culture and being able of working together as a team (Ostlund and Lindblad, 2008). This is the responsibility of management.

On the other hand, the majority of participants argued that there has been a positive impact on mergers and acquisitions in the South African banking sector. It was argued that when two banks merge it is good for local operations, banks will become much more competitive which is good for customers as they will have better deals and better products. It also gives opportunities for South African products to go overseas, so it attracts different pools of capital. Participant 4 gave the following example: *''you have Chinese investors at Standard Bank or British investors that wanted a stake in Barclays and wanted exposure to South African products. They are able to do so between the link between Barclays and Absa, so sort of beneficial for South Africa because it is able to sort of attract additional capital''*.

This view is shared by Prompitak (2009), who conducted a study on the impacts of bank mergers and acquisitions on bank behaviour in the UK and stated that customers may or may not obtain benefits from mergers and acquisitions. In addition, the combination of assets through mergers may generate efficiency benefits to entrepreneurs and costumers may take advantage if the rewards are for them in a way of better rates, better quality products or new products and services. At the same time, if mergers

and acquisitions are not supervised by high market power rivals, so that customers might end up spending more or receive poorer quality products and services.

Mergers and acquisitions can have a significant impact on banks, as it may have an effect on the bank industry structure and the gains of bank clients and even the growth of the whole economy. For this reason, it is essential that policy makers comprehend the variations in banks on the merger and acquisition procedure, so it can be decided if mergers and acquisitions in the banking sector should be supported and which strategies involving bank mergers and acquisitions should be outlined and applied (Prompitak, 2009).

Participants were then asked the most important factors for a successful acquisition deal that must be considered by the acquirer in the post-acquisition integration phase.

The post-acquisition integration phase is one of the most significant phases in the acquisition procedure. For it to be successful it requires having employees from both companies to work with a common objective in mind and this comes by establishing confidence and integrity. Appointing an integration supervisor with great interpersonal and project management expertise should be beneficial. As participant 5 mentioned: *''for me the most important thing in any transaction is project management. Project managers are important because you need to have one line of contact, one party talking, one representative, everything must go through channels, and the moment you lose control of that there, it can kill your transaction''*.

According to findings from Table 10 in the previous chapter, the most important factors for the post-acquisition integration phase include: having a project team, job preservation, clear plan, keep customers happy and the future profitability of the business. These factors can be compared to DePamphilis (2012) who argues that the most important activities in this phase are communication plans, employee retention, satisfying cash-flow requirements, employing best practices and cultural issues.

Lastly, the essential elements required to develop an effective strategic plan to cover post-acquisition business operations was asked to participants.

In this situation, one needs to find out if the acquisition is meeting its objectives, what has been done wrong and what should be done in future acquisitions. Once the acquisition starts operating normally, a few decisions should be made. According to DePamphilis (2012) some of the elements to consider are: do not alter performance benchmarks, inquire the complex questions and learn from errors.

Participant 2 mentioned the following: *''when Barclays came and bought a big chunk of Absa, they didn't make it Barclays South Africa, they left the Absa name there and it's complimented with being part of Absa. That would be one decision, do you change the brand name, the identity of the business*

or do you keep it the same''. Another decision he mentioned was *''how tightly you integrate the operations of the acquired company''*. Moreover, the need for communication and deal with the management structure were also mentioned as to avoid losing good people.

So basically, what was concluded from participants' responses in the previous chapter, regarding the strategic plan to cover post-acquisition operations, is that companies need to emphasise the need for communication to the management team of the acquired business and have some people from your company to spend some time in your target, in order to understand how they operate.

5.4.1 Conclusion

The results of this study do answer research objective three. The results indicate that bank mergers and acquisitions can actually have a positive impact in the sector, because it will increase competition, customers will have access to better deals and products. These findings are supported by Prompitak, (2009). Cultural differences were also identified in the study and were considered as having a negative impact in the banking sector, thus adding to the literature by Ostlund and Lindblad, (2008) and Tanure *et al.* (2009).

Moreover, it was found that the important factors for the post-acquisition integration phase include: having a project team, job preservation, clear plan, keep customers happy and the future profitability of the business.

In the next section, the results of research objective four which is to provide proof of how mergers and acquisitions activities can build stronger banks will be discussed.

5.5 PROVIDE SOME EVIDENCE ON HOW MERGERS AND ACQUISITIONS ACTIVITIES CAN BUILD STRONGER BANKS

The aim of this research objective is to provide some evidence on how mergers and acquisitions activities can build stronger banks. According to Table 10 in chapter 4, access to capital was the factor most mentioned by participants when asked how mergers and acquisitions build stronger banks. Global expertise and access to research capabilities was also mentioned by participant 1, whereby, in this case, both parties in the transaction will benefit from a wide range of expertise throughout the organisation. This will enable the acquired company to acquire skills that would have been very difficult and expensive to acquire in any other way. De Villiers (2008, p.52), found that economies of skill was one of the strong motivators for Absa to join forces with Barclays. In addition, Barclays is also benefiting from the transfer of skill from Absa to Barclays.

Participant 1 gave the following example regarding global expertise and global network: *''Before Barclays bought in if a South African corporate was looking to make a big acquisition in Europe, previously I mean Absa wouldn't have that expertise in general. It's research, knowledge on the ground to go and unlock the transaction, advise on what's happening on the ground in terms of what are the rules of the game there? Who the major players? What's the research? Now they've got that through Barclays, that's very powerful''*.

Acquisition of new services was also mentioned in the study. Normally, companies enter into mergers and acquisitions transactions because they have different strengths and specialists areas, and, therefore, the integration benefits both companies with a more diverse product range.

Participants were then asked the financial risks associated with poor planning for deciding on a deal for mergers and acquisitions. According to participants' responses in chapter 4, when failing to do a proper due diligence the buyer might end up overpaying for an asset, was the point mostly discussed.

According to DeVilliers (2008, p.30) a detailed due diligence is very important to make sure that all business risks are investigated. The most important elements to consider when valuing a target are potential earnings, ability to pay dividends and net assets of the company. Typically, it is done as part of the financial risk assessment of a merger or acquisition.

Apart from overpaying, there are other financial risks like fluctuating foreign exchange values, changing interest rates and volatile fuel prices. In this situation, the best thing to do is to allocate or spread the risk properly to increase long-term profitability. Banks are very dependent on their reputation, and a bad image could lead to a loss of important customers and revenues. If banks can spread or allocate their risks, properly they may end up improving their image as the bank will have a better reputation for being a safe bank.

5.5.1 Conclusion

The aim of this objective was to provide evidence on how mergers and acquisitions activities build stronger banks. The results indicate that mergers and acquisitions can build stronger banks through access to capital, access to global expertise and research capabilities, cost sharing, acquisition of new services and enter new markets. If banks allocate and spread their risks, properly it will increase their long term profitability.

The main contribution of this objective is to the academic literature on the South African banking sector. The results of this study do answer the research question.

Chapter 6: CONCLUSION

6.1 INTRODUCTION

In this section, the main findings of the research and suggestions as to how to continue to research in this field will be presented.

Extensive analysis of academic literature on the motives for mergers and acquisitions was conducted and discussed in chapter two of this study. The motives found that are most important in the South African banking sector are: strategic motives and financial motives.

The review of the literature on the motivations for mergers and acquisitions indicates that there is a broad variety of motivations for mergers and acquisitions. However, there is a lack of studies conducted on the motives for bank mergers and acquisitions in South Africa. It is these aspects of the literature review that contextualised the research problem and purpose of this research. To provide more clarity to the research problem, the researcher formulated four research objectives. These were to completely understand the problem statement, it is vital to understand the reasons for mergers and acquisitions in the bank sector.

To address the research questions, the study provided evidence of how some mergers and acquisitions have impacted the South African banking sector, as well as insights which will help banks in better reaching success in their transactions.

Similarly, with the research methodology set out in chapter three, a considerable amount of data was collected about each of the research questions set out above. These were discussed extensively in chapter five. Correspondingly, this chapter presents a review of the findings of this research and suggests potential areas of future research in order to advance and take forward some of the findings of this study.

6.2 RESEARCH FINDINGS

6.2.1 Research objective one conclusion: Understand mergers and acquisitions and the motives for these corporate actions

It was considered that internal growth is a lengthy and unpredictable procedure while growth through mergers and acquisitions can be quicker. Synergy is one of the most popular aspects of mergers and acquisitions. It is important to have senior management involved in the acquisition process because

they are the ones who are going to drive value creation after the acquisition. Mergers and acquisitions may fail to achieve expected returns when synergies are over estimated, clash of culture, failure to achieve integration promptly and failure to do proper due diligence. It was also found that the regulatory structures do not encourage bank mergers and acquisitions transactions, even though the South African financial sector is very regulated and stabilised.

6.2.2 Research objective two conclusion: Assess the current merger and acquisition activity in the bank sector

The aim of this research objective was to increase the limited academic research on the motives for bank mergers and acquisitions in South Africa. This objective produced a variety of motives which, in the view of participants are some of the motives for bank mergers and acquisitions in South Africa. These motives are set out in Table 7, and they consist of gateway to Africa, strong banking system, expansion, respected banking regulator globally, have a full-service offering and show off existing investment in Africa.

6.2.3 Research objective three conclusion: Find out whether or not banks reach their objectives after a merger and acquisition transaction

Bank mergers and acquisitions have a positive impact because they increase competition, customers are provided with better deals and products. But they can also have a negative impact due to cultural differences.

For this objective, it was also established that banks can reach their objected motives after a merger and acquisition transaction by considering some important factors which are having a project team, a clear plan, job preservation and keep customers happy.

6.2.4 Research objective four conclusion: Provide evidence on how mergers and acquisitions activities can build stronger banks

It was found that mergers and acquisitions activities can build stronger banks by doing a detailed due diligence. Furthermore, banks will have access to global expertise, capital, research capabilities, contacts, cost sharing and enter new markets. Thus improving their image and making them more competitive on the market.

6.3 IMPLICATIONS OF THE STUDY

6.3.1 Managerial implications

The findings of the study have implications for those interested in bank mergers and acquisitions deals. Business people and professionals in the bank merger and acquisition field, must take into consideration when structuring and executing bank merger transactions. Such transactions cannot just depend on the same models and structure of motives that are used in other industries. As seen in Table 8, this research provides a list of motives which must be in mind before implementing a bank merger transaction. People concerned with the conceptualisation, structuring and execution of bank merger transactions must ensure, they take into consideration those motives set out in Table 8, because those factors were mentioned by participants as being important for the motives of bank mergers and acquisitions deals.

6.4 STUDY LIMITATIONS

The results of the study cannot be generalised since it only focused on the South African financial sector. Face-to-face interviews were conducted to obtain insights in the merger and acquisition field, but because of the features of these personal interviews, there are no anonymity and participants might be hesitant to give details with regard to particular deals of a sensitive nature.

The sample size was rather small, but Crouch and McKenzie (2006) argued that a small sample will make possible the researcher's close involvement with participants and increase the validity of in-depth interviews.

6.5 RECOMMENDATIONS

It is believed that this study has built a good foundation for future studies within the field of the motives for bank mergers and acquisitions. Using a quantitative approach, future research can explore the relationship between the variables more.

A comprehensive investigation of a specific transaction will offer understandings and focus on the distinctiveness of each transaction. Furthermore, leaders in the field are supported to give all the guidance required as well as help to make information accessible and take proprietorship of such evaluations.

In the findings in relation to objective one, it was found that mergers and acquisitions may fail to achieve expected returns when synergies are over estimated, clash of culture, failure to achieve

integration in a timely manner and failure to do proper due diligence, so this could be an interesting research problem to investigate in the South African context.

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Appendix 1: Interview Questions

- 1 – Why do mergers and acquisitions take place?
- 2 – Why is it important to get senior management heavily involved early in the acquisition process?
- 3 – Why do some mergers and acquisitions fail to achieve expected returns?
- 4 – What are the regulatory structures in the South African banking industry that encourage and discourage mergers and acquisitions?
- 5 – What are the financial risks associated with poor planning for deciding on a deal for mergers and acquisitions?
- 6 – In your opinion, what are the motivations for the two acquisitions currently in the news? Namely the ABSA and Barclays transaction or Standard Bank and Commercial Bank of China transaction?
- 7 – What kind of impact have some of the mergers and acquisitions had in the South African banking sector?
- 8 – How do mergers and acquisitions build stronger banks?
- 9 – What are the most important factors for a successful acquisition deal that must be considered by the acquirer during the post-acquisition integration phase?
- 10 – What are the essential elements required to develop an effective strategic plan to cover post-acquisition business operations?
- 11 – What are the objectives of acquiring companies?

22 October 2014

Mr Bruno Elearde Da Cunha Baptista (213566471)
School of Management, IT & Governance
Pietermaritzburg Campus

Protocol reference number: HSS/1362/014M

Project title: Strategic approaches to achieve corporate goals: A case study of the Financial Sector

Dear Mr Baptista,

Full Approval – Expedited Application

In response to your application received on 10 October 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

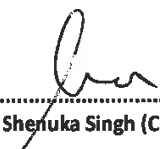
Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



.....
Dr Shenuka Singh (Chair)
/ms

Cc Supervisor: Mr Nigel Chiweshe
Cc Academic Leader Research: Professor Brian McArthur
Cc School Administrator: Ms Debbie Cunynghame

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