Title

Factors influencing synergy realisation following a merger and acquisition in South Africa

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ABSTRACT

Most research studies on the success of merger and acquisition (M & A) transactions have focused on the financial measures of success. This study aims to determine the key success factors necessary to ensure realisation of revenue-enhancing synergies. While synergy realisation is covered generically in some studies, this study looks specifically at revenue-enhancing synergies. Using the case study method, a group that has made several acquisitions in the South African electrical projects industry was investigated. Several sources of evidence were used in the data collection. It was found that sound implementation plans, immediate addressing of HR issues as well as open communication with all concerned was essential to realising revenue-enhancing synergies. Strong leadership emerged as the crucial factor in ensuring that these success factors were driven to realisation.

DECLARATION

I, Michael Arthur Stewart, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Michael Arthur Stewart

Signed at: Park Town

On the 6th day of April 2010

DEDICATION

To my family for their unwavering support through what has been a test of endurance on a journey to personal accomplishment;

To Bailey, you were only 4 at the start of these studies. No child should have MBA as part of their vocabulary. Thanks for your child-like support for something you did not understand.

To Liam, you quietly carried on through your dad's absence at many important events. I share your relief that I will have more time with my family in future.

To my darling wife Lynda, yours was the most thanklessjob and your strength was selfless. You always had such a strong belief in me; you have no idea how that has helped me through this journey.

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LIST OF ABBREVIATIONS

DCF	Discounted Cash Flow
EBITDA	Earnings Before Interest Depreciation Amortisation
ERP	Enterprise Resource Planning
Exco	Executive Committee
GM	General Manager
HR	Human Resources
IT	Information Technology
M & A	Mergers and Acquisitions
MCC	Motor Control Centre
MD	Managing Director
PE	Price Earnings
R&D	Research and Development
WACC	Weighted Average Cost of Capital
WIP	Work in Progress

1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to determine the key factors necessary to realising revenue enhancing synergies expected in Mergers and Acquisitions (M & As). Weston, Chung and Siu (1998) divide M & A activity into three distinct categories:

(1) Horizontal – between two firms operating and competing in the same markets;

(2) Vertical – between two firms operating at different stages of the production process; and

(3) Conglomerate (diversified) – between two businesses engaged in unrelated business activities.

The majority of studies conducted on value creation from mergers find that post-merger value creation is far more difficult than originally anticipated by the acquiring parties. There is strong support for the findings that more than half the M & As only break even, or in fact, destroy shareholder value (Eccles, Kersten and Wilson 1999; Marks and Mirvis 2001; Kempner 2005). Fewer research findings have supported the conclusion that the majority of mergers maintain or create value (Jensen and Ruback 1983; Ingham, Kran and Lovestam 1992).

The reasons cited for M & As failing to create value are extensive, with some of the more common reasons being poor valuation of the target, resulting in paying too much for it (Luehrman 1997; Eccles et al. 1999); poor strategic fit (Porter 1987; Schweiger, Csiszar and Napier 1993); unrealistic assumptions in synergy valuation (Eccles et al. 1999; Kode, Ford and Sutherland 2003); inadequate due diligence (Lovallo, Viguerie, Uhlaner and Horn 2007); poor implementation and integration, including inadequate consideration for human resource (HR) and cultural compatibility (Horwitz, Anderssen, Bezuidenhout, Cohen, Kirsten, Mosoeunyane et al. 2002); the pace of change (Anslinger and Copeland 1996;

Bruner 2002); retention of talent (Schweiger et al. 1993; Bruner 2002; Fairfield-Sonn, Ogilvie and DelVecchio 2002); and poor communication (Schweiger et al. 1993; Kempner 2005; Lotz and Donald 2006); as well as management hubris (Roll 1986; Harding and Rovit 2004).

Strategic intent for the three categories of mergers has both common ground as well as unique considerations. Each category inherently presents different challenges to the parties involved. In previous studies, the success rates quoted covered the full ambit of M & A activities, regardless of merger motives. It is widely regarded that the main motive for M & A activity is the expectation of realising synergies to create value. According to Mukherjee et al. (2004) the primary motive for M & A is to achieve operational synergies. The current study focused on synergy realisation and not overall merger success or reasons for failure. A more specific focus was the realisation of revenue-enhancing synergies. This study looked at horizontal mergers where revenue-enhancing synergies are sought. Synergy realisation is a function of combination potential, where a key attribute is marketing complementarities between the two merging businesses (Larsson and Finkelstein 1999).

Goold and Campbell (1998) suggest that executives are prone to overestimate the benefits of synergies and underestimate the costs. Eccles et al. (1999) support this observation in expressing the need for rigour when a target's synergy value is calculated, as well as a need to avoid underestimation of cost as a result of integration requirements being insufficiently detailed.

1.2 Context of the study

In South Africa M & A activity is dominated by horizontal mergers, with just over half the cases falling into this category. This is followed by conglomerate mergers, which make up a quarter of all the cases. Vertical M & As and horizontal/vertical mix M & As make up the last quarter of recorded cases (Competition Commission 2008).

In 2007 there were 612 M & A transactions in South Africa (Ernst & Young 2007). This study focused on a South African electrical engineering projects company with a large manufacturing component to the business. Manufacturing combined has made up over a quarter of all M & A activity in South Africa over the last seven years.

The year 2007 saw a global increase of 23% in M & A activity, with a total value of $4,83 trillion (Thayser 2008). The South African market, while relatively small to the global activity, is sizeable in value. The total deal value for South African M & A activity amounted to R514 billion in 2007 (Temkin 2009). This makes the South African M & A market 1,5 % of the global market; based on the average R/$ exchange rate bid price for 2007 (FXTrade 2009). 2008 would see a global decline in M & A activity in line with a global economic slowdown, with South African activity dropping 33% to R312 billion (Temkin 2009).

The regulatory environment in which M & A activity is carried out is controlled by the Competition Commission, a statutory body constituted in terms of the Competition Act No. 89 of 1998 to ensure that M & A activity does not result in restrictive business practise (Republic of South Africa 1998). Chapter 6 section 61 clause 2 of the Act states that If restrictive business practices are found, the commission may impose an administrative fine of up to 10% of the firm‘s annual turnover in the Republic and its exports from the Republic during the firm’s preceding financial year’s market dominance(Republic of South Africa 1998).

The Competition Act defines a merger in Chapter 3 section 12 clause 1 (Republic of South Africa 1998:9) as “ the direct or indirect acquisition or direct or indirect establishment of control, by one or more persons over all significant interests in the whole or part of the business of a competitor, supplier, customer or other person ”. As the appointed body to ensure anti-competitive behaviour does not take place within the South African business environment, the Competition Commission is mandated to access all notifications of a M & A as laid out by the Act for compliance. As of 1 April 2009 the merger had to be announced to the Commission in the event of the combined revenue of the two merging companies turnover exceeding R560 million or the target turnover exceeding R80 million (Competition Commission 2009). Smaller mergers that do not meet the qualification criteria are only voluntarily announced.

In accessing the compliance of a proposed merger, the Competition Commission must determine the effect of the merger on the concentration of the industry in question. Mergers are prohibited where they substantially prevent or lessen the competition in the market. However, where the acquirer can prove that any synergies (i.e. technological gains, efficiency gains or other pro-competitive gain) will outweigh the effects of concentration of the industry, the Competition Commission will allow the transaction to proceed as described in chapter 2 section 4 and 5 clause 1 (Republic of South Africa 1998). Synergies should create value (an obvious objective of an acquiring firm) that enables it to compete in the market in such a way that the consumer will ultimately benefit.

1.3 Problem statement

1.3.1 *Main problem*

To determine the key success factors necessary to ensure the realisation of revenue-enhancing synergies following an acquisition in the South African electrical engineering projects industry.

1.4 Significance of the study

The study fills a gap in that it aims to determine what factors are necessary to ensure the successful realisation of revenue-enhancing synergies. Previous studies on M & As have focused on the overall success of a M & A from an overall finance perspective while citing poor synergy realisation as one possible reason for poor performance (Eccles et al. 1999; Kode et al. 2003). Bruner (2004) suggests that publicly traded firms cannot offer shareholder value through acquisitions as the shareholders themselves could invest in the acquiring company. This statement obviously ignores the fact that value can be created when real synergy exists between the two companies and that cannot be realised when these companies stand alone.

Previous studies have looked at the key success factors in terms of overall M & A success or generic synergy realisation and ignore the differing challenges faced in the realisation of the different synergy categories. This study looked specifically at revenue-enhancing synergy realisation. This study will offer some insight into which of the stages in the M & A process are key for successful delivery of revenue enhancing synergistic expectations.

The findings from the study could provide guidance to due diligence practitioners for estimating the value of an expected revenue-enhancing synergy. Management could acquire an indication of their role in achieving the full benefits of revenue-enhancing synergies. Executives could be better equipped to identify the process of revenue-enhancing synergy realisation and identify possible areas of intervention.

1.5 Delimitations of the study

- This study focused specifically on a South African M & A;
- The case study focused on the electrical manufacturing/projects industry only; and
- The case study was specific to intermediate-sized M & As as defined by the South African Competition Commission (i.e. between R100 and R 500 million).

1.6 Definition of terms

Hubris - overbearing pride or presumption (http://wordnetweb.princeton.edu/perl/webwn?s=hubris, accessed 10 May 2009).

Genset – A complete generator package.

Agency costs – Cost that are derived from the agency theory that " postulates that mergers take place when there are differences between what managers and shareholders want " (De Pamphillis 2001:43).

1.7 Assumptions

The following assumptions were made:

- The interviewees were able to recall the factors specific to their level within the organisation regarding the success factors for realising the expected revenue-enhancing synergies.

- Interviewees were able to understand the questions posed to them as well as articulate their responses.

2 LITERATURE REVIEW

2.1 Introduction

The literature review is divided into two sections. The first section defines synergies and their different categories as well as revenue-enhancing synergies more specifically. This first section notes the differences in the potential challenges faced in achieving the full realisation of each particular synergy. Key definitions will also be discussed in this section. In the second section a review of the M & A process is discussed, with a breakdown of each stage in the process where inaccurate synergy estimates and inadequate implementation can result in unsatisfactory realisation.

2.2 Synergies

A topic that has been surveyed and researched extensively on M & A activity is the value creation achieved from merging the two firms (Ingham et al. 1992; Eccles et al. 1999; Bruner 2002; Lovallo et al. 2007). The dominant value-creation measure used is financial return to the shareholder/owners.

This research attempted to determine the key success factors in realising revenue enhancing synergies. This goal necessitates an understanding of what constitutes synergy and, more specifically, revenue-enhancing synergies as defined by the business community.

It is essential that synergies are not expressed as some vague strategic or organisational objective. Goold and Campbell (1988:133) describe synergy in business as “ the ability of two or more units or companies to generate greater value working together than they could working apart ”. Synergies should be expressed as well articulated plans on maximising value-enhancing benefits that stand-alone firms cannot generate (Bruner 2002; Kode et al. 2003).The synergies should have measurable objectives that assist an acquirer in determining the success of the integration and value maximisation.

An acquirer develops a deeper understanding of the anticipated synergies when the details of the synergies are well articulated. The extent of insight and modelling of the synergies necessary will vary between the different categories of synergies (Bruner 2004). The extent of interaction or integration of the acquired business as well as certainty of value realisation will vary. Particular types of synergies are easily calculated - for example, where cost reductions are the driving motive and the certainty of achieving synergy is high (Bruner 2004). However, when high integration levels are required, the cultural and HR issues will create some level of uncertainty (Larsson and Finkelstein 1999). Within the different categories of operational, financial, revenue-enhancing, and enhanced-capability synergies, the certainty of achieving maximised synergies following an acquisition will varying according to these factors.

2.2.1 *Operational synergies*

Operational synergies are predominantly aimed at cost reduction and may require a high level of integration. Operational synergies are aimed at key value drivers between the two entities and are either focused on economies of scale or economies of scope (Marks and Mirvis 1998; De Pamphilis 2001).

Economies of scale are created when the combined entities have greater purchasing power or increased/complementary manufacturing facilities (De Pamphilis 2001). The sharing of fixed costs over an increased production base has an effect of reducing cost per unit produced (Weston et al. 1998). Alternatively, consolidation of functions may result in cost savings through eliminating jobs or reduction in assets (Bruner 2004). Disposal of assets can also allow a once-off benefit from the synergies created. There is a high level of certainty, according to Bruner (2004), that these cost savings can be achieved.

The economies of scope can be realised when a specific set of skills is utilised in producing related products (De Pamphilis 2001). In addition, Weston et al. (1998) note that economies could also come into effect when an asset producing a particular product can be utilised for producing an entirely new product.

The extent of operational integration necessary will, however, impact on the certainty of achieving the synergies. Where high levels of integration are carried out the cultural and HR compatibility of the two companies will influence the level of potential for realisation of the synergies (Bruner 2002; Horwitz et al. 2002).

2.2.2 *Financial synergies*

There are two types of financial synergies: improvement of a company's cost of capital; or improvement to the capital management of the combined organisation (De Pamphilis 2001).

Financial synergies are created when a market-expansion opportunity exists along with an inability to capitalise on the opportunity due to insufficient financing. As DePamphilis (2001) points out, a merger may improve the sources and relationships for obtaining access to debt financing that one of the parties may not have had access to individually. In addition, a preferential debt rate held by one of the companies will further improve financial synergies. In some cases a preferential debt rate may be obtained by both companies due to the co-insurance effect of lowering the risk to lenders (Bruner 2004). The greater the diversification the greater the risk reduction as the economic cycles can differ across industry sectors.

Working-capital-finance requirements may be complementary between two companies when they have different cash flow requirements. By optimising capital management, DePamphilis (2001) argues that the funding costs of the combined organisation could be reduced.

Integration requirements would be very low for financial synergies and would, therefore, be unlikely to influence the certainty of achieving the calculated expectations. While financial synergies do not have extensive integration requirements, Eccles et al. (1999) highlight the fact that the calculation of potential value creation through financial synergies can be notoriously difficult to estimate.

2.2.3 *Tax synergies*

The goal in tax-planning synergies is to ensure combined tax rates are equal to or lower than the blended tax rates of the stand-alone companies (Eccles et al. 1999; Sudarsanam, Holl and Salami 2006). By transferring tax liabilities between the organisations, the tax payable can be lowered. One way tax liabilities can be transferred, as identified by Bruner (2004), is when net operating losses of an acquired company can be used to offset future tax payments. The estimation of tax synergies has a very high certainty of achieving the benefits. Tax synergies could be considered to be the most certain of all the synergy opportunities. However, Eccles et al. (1999) caution that tax synergies alone should not be a motivator for acquiring a company as they do not strengthen a company's competitive position.

2.2.4 *Enhanced capabilities*

Either the acquirer or the target may have a core competence that would improve the capability and efficiency of the other party. The core competence may vary from managerial know-how, technology capability, or expertise in research and development (R & D). The acquisition of these competencies, according to Eccles et al. (1999), often results in cost savings as well as increased revenue.

The management know-how, according to Campbell and Goold (1998), could be either knowledge based or skills based. Know-how could be knowledge of best practices within an industry. Excellent management skills of one organisation could be transferred to or taught at the other organisation.

Technology transfer from one company to the other can improve one company's efficiency to meet new industry changes (Harding and Rovit 2004). For example, an organisation's superior technological manufacturing advantages could be transferred or a production enterprise resource planning (ERP) system could enhance another organisations' efficiency.

Acquiring R & D capabilities of an organisation can generate enhanced capability synergies. The product development process could get product to market either more cheaply and/or faster. As mentioned by Campbell and Goold (1998), R & D can be an extremely cost-intensive activity and can be pooled to reduce this overhead.

The estimation of value creation for enhancing the capability of an organisation could prove to be an extremely difficult exercise with a high level of uncertainty. Coupled with this will be the uncertainty of ensuring that organisational issues do not impede a smooth integration (Porter 1987). The realisation of enhanced capability could be the most difficult synergy to measure and implement.

2.2.5 *Revenue-enhancement*

Increased market share is a driving expectation when the synergy category for revenue enhancement is the driving force behind the merger. Eccles et al (1999) suggest that revenue enhancement could be difficult to estimate as the market reaction to the merger is unpredictable. The varying levels of integration will result in varying levels of uncertainty from a compatibility perspective. However, Goold and Campbell (1998) and Bruner (2002) express the need for measurable terms or sizing the prize, without which the acquirer has a recipe for disaster.

The product/market expansion integration of the two entities will vary depending on what the acquired company has to offer strategically. This could be geographic expansion through acquisition, which may require a small number of integration efforts, while sales-force integration could prove to be more difficult than estimated. This cross-selling of products identified by Eccles et al. (1999) and Bruner (2004) between two merged organisations is a classic form of revenue-enhancing synergies.

Another form of revenue enhancement as noted by Eccles et al. (1999:142) occurs when: “ the bigger, post-acquisition company gains sufficient critical mass to attract revenue neither company would have been able to realise alone ". By pooling the two companies' resources, tenders that were previously thought to be too large can now be included in the sales-force targets.

The market reaction to a merger can vary. The combined customer base may not favour a form of integration that eliminates competition from their suppliers. Competitors may react to the merger by in turn offering price reductions, according to Eccles et al. (1999). As market reactions are uncertain, some companies will heavily discount the calculated revenue-enhancement value created.

2.2.6 *Synergistic success defined*

It is essential that synergies are expressed beyond vague strategic or organisational objectives. Well-articulated plans for maximising value-enhancing benefits between the two companies should be expressed clearly (Bruner 2002; Kode et al. 2003).

An acquirer develops a deeper understanding of the anticipated synergies when the details of the synergies are well articulated. The extent of insight and modelling of the synergies necessary will vary between the different categories of synergies (Bruner 2004). As no M & As are the same, the extent of interaction or integration of the acquired business as well as certainty of value realisation will vary. Some synergies are more easily calculated – for example, where cost reductions are the driving motive for the M & A. The cultural and HR issues will create some level of uncertainty to synergy realisation when integration levels are high.

Within the different categories of operational, financial, revenue-enhancing and enhanced-capability synergies, the certainty of achieving maximised synergy will vary according to the integration factors necessary to reach full realisation. Purely measuring returns has its own flaws, as pointed out by Porter (1987), as financial success is often determined by the companies' base industry success.

The revenue-enhancing synergies are regarded as successful in this research report when either the acquired company or the acquiring company in an acquisition can clearly attribute a proportion of its revenue to its association post-acquisition with the other company.

2.3 Valuation of revenue-enhancing synergies

Companies are becoming increasingly aware that a merger is an effective way to increase profitability. There are various reasons for poor valuation cited in the literature. Roll (1986) and Lovallo et al. (2007) use hubris to explain the possible motivation of individuals who continue with a bid even when overestimation becomes apparent in the valuation of a target acquisition. But what initially causes this overestimation of the value of a target acquisition? The financial models used for valuation have several estimates that ultimately lead to uncertainty of the valuation (Mukherjee et al. 2004). In addition, companies are finding increased competition in the M & A process. An increase in the number of firms competing for a target creates bidding wars that can push up the initial price (Slusky and Caves 1991). In the South African M & A market we have not only acquiring organisations but also private equity firm activity, Black Economic Empowerment transactions, as well as foreign direct investment (Temkin 2009). If the final price offer exceeds the valuation of the stand-alone company due to bidding wars, this premium can only be justified if there are synergies that can be realised through the merger or acquisition (Mukherjee et al. 2004).. The valuation of the target as a whole is beyond the scope of this study, but the valuation of the synergy is of great importance as it directly bears on the price a bidder is prepared to pay.

Kode et al. (2003) found that the vast majority of M & A activities were expecting synergies as the main motivators for value creation. However, these authors found that a wide variation exists in attempting to evaluate the synergies, and that some companies do not evaluate the synergies at all. What is needed for successful evaluation, according to Kode et al. (2003:27), is: “ the identification of synergistic opportunities, pre deal planning for the realisation of the synergies and the evaluation of the relationship between the potential synergies and the acquisition premium ”.

These authors agree that the synergy should be separately evaluated to determine the value creation specific to the synergy (Porter 1987; Kode et al. 2003; Bruner 2004). The most common models used in the valuation of synergies, according to Mukherjee et al. (2004) are the present value of anticipated future cash flows from the synergies. Some of the other models used include break-even analysis, discounted cash flows and options analysis. Regardless of what model is used there are uncertainties that have to be estimated.

The accuracy of the present value method is dependent on determining reliable estimated future cash flows. The future market size as well as future economic conditions will be just some of the considerations needed for determining estimated future cash flows that may result from revenue-enhancing synergies. Added to these uncertainties is the high variability of the Weighted Average Cost of Capital (WACC) when the capital structure of a firm is constantly changing. According to Firer, Ross, Westerfield and Jordan (2004), these factors that must be determined all create a high degree of uncertainty when considering what discount rate should be used.

The potential synergistic relationship will differ from one bidder to the next, as one bidder may be in a position to offer a premium above that of a rival bidder and yet still make the merger more successful than its rival could, according to Eccles et al. (1999). This can be the case when a greater degree of potential synergy exists for the bidder offering the higher premium.

In summary we can see the need for formal evaluation of the expected synergy (Kode et al. 2003; Bruner 2004) as opposed to an ideal of synergistic gains expressed as vague slogans of strategic benefit. However, this does not guarantee that the estimate will be highly accurate as a result of the uncertainties of the future market, improved cash flows and determining an appropriate discount rate. One way to minimise these uncertainties is to ensure that a thorough due diligence is conducted.

Proposition 1

> Revenue-enhancing synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately from the target company valuation.

2.4 Due diligence

The due diligence process serves to verify all previous assumptions with regard to the feasibility of a merger or acquisition. The full coverage of the due diligence process is beyond the scope of this research. Only aspects specific to revenue-enhancing synergy realisation are considered. The due diligence should typically be done in two stages, where the preliminary stage allows for a reasonable assessment of the operational-synergy value-creation expectations with the target. Once an acquisition price is agreed between the two parties, the acquirer should then have access to further information, which can be used to verify assumptions made in the preliminary stage of the due diligence (Lovallo et al. 2007). The due diligence must not only verify the financials but must also ensure that it covers the strategic logic of the acquisition as well as determine the acquirer’s ability to extract value from the acquisition (Cullinan, Le Roux and Weddigen 2004). The due diligence can be seen as an exercise in risk management. The weighted benefits of costly due diligence against the potentially costly surprises arising during integration should be considered. The process should inform the acquirer of a maximum bidding price acceptable for the deal to continue, according to Lovallo et al. (2007), which, when broken down, will show the value benefits specific to the revenue-enhancing synergies.

Bruner (2004) challenges due diligence practitioners to think like investors rather than merely work through a check list when conducting the due dilgence. This requires a transition from simply verifying data to becoming knowledge focused and making assessments about the adequacy of accounting procedures and the acceptability of audited results. The financials will be scrutinised during the due diligence process. It is imperative that a history of audited financials is checked to ensure there are no accounting anomalies (whether intended by the target or not) that may affect the valuation of the revenue-enhancing synergies.

Schweiger et al. (1993) and Lovallo et al. (2007) suggest the biggest problem during the due diligence in terms of estimating synergies is overconfidence in the acquirer's ability to achieve projected synergies and an underestimation of the costs, time and resources involved in achieving them. Different types of synergies must be considered against their probability of realisation, as well as the time needed to achieve realisation. The due diligence process should assist in fully developing an understanding of the opportunities for improvement as well as reaching full comprehension of the potential synergies. Synergies should be calculated separately from the target company's value with the use of a financial model suited to the assessment needed (Bruner 2004). Generated cash flows from the synergies should be calculated. The cash flows must take into consideration the sources of value such as duplicate facilities, shared overheads or shared distribution channels (De Pamphilis 2001). The estimated costs of implementation must be incorporated into the cash flow estimates.

The implementation cost on the softer issues of cultural and HR compatibility is often overlooked. While there appears to be no clear way to calculate this cost, the potential extended time taken to implement the synergies due to HR and cultural clashes should be considered in the estimates of future cash flows as, according to (Horwitz et al. 2002), ignoring the cultural differences can have long-term high costs.

Once the final bidding has been concluded, best practice dictates that additional due diligence be carried out to ensure the assumptions of the preliminary due diligence are acceptable. A heuristic bias known as "anchoring" can settle in at this stage, where the assessors have a tendency to under react to surprises (Lovallo et al. 2007). The acquirer has ploughed too much time and money and is not willing to surrender. It is at this stage that the due diligence process often underperforms. For effective due diligence to take place, assessors must test every assumption and belief held by the acquirer. When the assumptions are found to be detrimentally incorrect, continued pursuit of the target will almost certainly result in post-merger dissatisfaction in realising revenue-enhancing synergies. Often it is management hubris, according to Roll (1986) and Lovallo et al. (2007), that will force a deal through at this stage when the acquirer should abandon the deal instead.

In concluding the due diligence the practitioners need to have a comprehensive business plan for the post-merger integration (Bruner 2004; Lovallo et al. 2007). Without an articulated plan, implementation of integration will be unpredictable and have unpredictable results. The integration plan will assist in ensuring thorough consideration of the revenue-enhancing synergies.

The due diligence should, therefore, ensure two things – first, that the models and assumptions used to derive the value of the revenue-enhancing synergies be tested ((Schweiger et al. 1993; De Pamphilis 2001; Bruner 2004; Lovallo et al. 2007); and Second, that a clear plan exists for the implementation of the revenue-enhancing synergy (Bruner 2004; Lovallo et al. 2007).

Proposition 2

> The due diligence should test all assumptions related to the financial model used to determine the value of the revenue-enhancing synergy.

Proposition 3

> Clear implementation plans will improve the probability of fully realising the revenue-enhancing synergies.

2.5 Integration implementation

The implementation of an integration strategy can cover extremely broad requirements . This research report, however, focuses on the areas particular to implementation of expected revenue-enhancing synergies. What is imperative for effective integration is thorough planning at the due diligence stage (Bruner 2004). This plan, from a synergistic perspective, will need to take into consideration speed and level of integration, cultural and HR issues, as well as synergy measurables. Clear communication of the impact that the merger will have on the individuals is essential for effective implementation.

2.5.1 *Speed of integration*

Speed is of the essence in the implementation stage to ensure that momentum and, with it, opportunities are not lost. The speed accomplished will obviously depend on the size of the merger and extent of the organisational integration necessary. An example on the importance of implementation speed is given by Schweiger et al. (1993), where the acquisition of an organisation was concluded for its distribution capabilities. In this instance low levels of integration would be required and the implementation would be relatively simple and quick to implement.

As strategy must guide the changes, the level of anticipated synergies will determine the extent of integration or interdependence of the different business units. The principle of minimum intervention is advocated by Schweiger et al. (1993), which suggests that only the high leverage areas for maximising synergy integration be utilised to ensure that the pace of change is swift. De Pamphilis (2001) also discusses the importance of understanding the time period in which integration will be implemented. He notes that one of the commonly cited reasons for failure is a slow pace of post-merger integration.

Proposition 4

Implementation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies.

2.5.2 *Cultural considerations*

An area of implementation addressed by several authors is the integration of the cultural differences between the two organisations (Schweiger et al. 1993; Bruner 2002; Horwitz et al. 2002; Kempner 2005). It is, therefore, essential that this issue is assessed during the due diligence for forming an understanding of how potential clashes during the integration stage can be overcome. An integration plan addressing cultural and HR issues should be formulated at the due diligence stage.

A major obstacle to successful integration is the attempt to combine two incompatible cultures. Where extensive integration is required to achieve the revenue-enhancing synergy, cultural differences must be reconciled. According to Horwitz et al. (2002), if organisational culture differences are not addressed the long-term hidden costs could be high. Larson and Finkelstein (1999) have found that the greater the management style similarities, the greater the degree of organisational integration and, therefore, the greater the potential to achieve synergy expectations. When very little interaction is required between the organisations, cultural differences may not pose a serious problem to the integration implementation.

Proposition 5

> Integrating cultural differences is essential when integration interaction is high.

2.5.3 *Human resources and communication*

HR issues must be dealt with immediately to limit the unwanted side effects of uncertainty that the merger creates (Horwitz et al. 2002). Career-affecting decisions must be announced and implemented as soon as the deal is signed. If management communicates about the merger to all concerned, the side effects can be minimised

Employees' negative reactions to the merger manifest themselves in several ways such as poor job satisfaction, high stress levels, absenteeism (Schweiger et al. 1991; Fairfield-Sonn 2002) and loss of talent (Brunner 2004; Horwitz 2002). Retention of talent post merger is critical to the success of achieving the operational synergies. By immediately implementing job losses and changes in career status essential to the merger, the uncertainty that employees feel can be minimised.

Communication during integration needs to be effective and honest (Appelbaum, Bartolomucci, Beaumier, Boulanger, Corrigan, Doré et al. 2004). Lotz and Donald (2006) found that satisfaction with communication by employees had an inverse relationship with stress levels experienced during the integration stage. In communicating the integration plans that affect individuals clearly, employees' personal concerns are addressed and their uncertainties are eliminated. If integration plans are not clearly communicated, employee attitude, motivation and effectiveness could be severely affected.

Proposition 6

If HR issues are dealt with immediately following the acquisition, there is a greater chance of the complete realisation of revenue-enhancing synergies.

Proposition 7

Well-communicated integration plans will reduce employee resistance to the revenue enhancing synergy integration.

2.6 Conclusion of Literature Review

In determining the proposed key success factors needed to achieve full realisation of revenue-enhancing synergies the literature was viewed from a more holistic approach to successful M & A implementation. As the revenue-enhancing synergies realised follow the same generic path of the entire M & A process from intent to realisation, each stage's success requirements have been proposed as a key success factor in fully realising revenue-enhancing synergies.

Revenue-enhancing synergies should be correctly evaluated; the evaluation, should be verified during the due diligence stage; and effective plans should be drawn up for the integration of the revenue-enhancing synergies. The implementation plans must take into consideration the time period as well as issues regarding culture differences, HR and communication.

The different stages in the process were covered in the literature review with the corresponding proposition stated under the different sub-headings. For the purposes of consolidation, the propositions have been restated..

2.6.1 *Proposition 1*

Revenue-enhancing synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately from the target company valuation.

(Porter 1987; Eccles et al. 1999; Kode et al. 2003)

2.6.2 *Proposition 2*

The due diligence should test all assumptions related to the financial model used to determine the value of the revenue-enhancing synergy.

(Schweiger et al. 1993; DePamphilis 2001; Bruner 2004; Lovello et al. 2007)

2.6.3 *Proposition 3*

Clear implementation plans will improve the probability of fully realising the revenue enhancing synergies.

(Bruner 2004; Lovello et al. 2007)

2.6.4 *Proposition 4*

Implementation plans should incorporate a time period to achieve full integration of the revenue enhancing synergies.

(Schweizer 1991; De Pamphilis 2001)

2.6.5 *Proposition 5*

Integrating cultural differences is essential when integration interaction is high.

(Larson and Finkelstein 1999; Horwitz et al. 2002)

2.6.6 *Proposition 6*

If HR issues are dealt with immediately following the acquisition, there is a greater chance of the complete realisation of revenue-enhancing synergies.

(Schweiger et al. 1991; Fairfield-Sonn 2002; Horwitz 2002; Brunner 2004)

2.6.7 *Proposition 7*

Well-communicated integration plans will reduce employee resistance to the revenue-enhancing synergy integration.

(Appelbaum et al.2004; Lotz and Donald 2006)

3 RESEARCH METHODOLOGY

3.1 Research methodology / paradigm

This study made use of a qualitative research methodology. In determining the key challenges to realising synergies, the challenges become highly contextualised. According to Smith and Heshusius (1986:7), " for the qualitative perspective, inquiry is a never-ending process (hermeneutical) of interpreting the interpretations of others". When context plays such a vital role in the outcomes, the qualitative paradigm can offer more insight into the issues being studied.

Creswell and Miller (2000) acknowledge the validity concerns with the qualitative paradigm and describe validity requirements in Qualitative studies by looking at the lens and paradigm assumption perspectives. The first perspective is the lens through which the researcher chooses to validate his or her study, which is either the researcher, the participants of the study or the readers of the study. The second perspective is the research paradigm assumption according to which the researcher chooses to conduct the study. Both perspectives have three categories, which the authors have tabulated into a 3X3 framework, yielding nine different validity procedures. The framework is shown in Table 3.1 and the researcher can locate the required validity procedure through considering the various lenses and the chosen paradigm through which the research is conducted.

The three paradigm assumptions, as labelled by Denzin and Lincoln (1994), that qualitative research utilises are:

- The positivist paradigm;
- The constructivist paradigm; and
- The critical paradigm.

Table 3.1: Validity procedures within qualitative lens and paradigm assumptions (Creswell and Miller 2000)

Paradigm Assumption / Lens	Positivist or Systematic Paradigm	Constructivist Paradigm	Critical Paradigm
Lens of the Researcher	Triangulation	Disconfirming evidence	Researcher reflexivity
Lens of Study Participants	Member checking	Prolonged engagement in the field	Collaboration
Lens of People External to the Study (Reviewers, Readers)	The audit trail	Thick rich description	Peer debriefing

This study made use of the positivist paradigm. The positivist paradigm utilises rigorous methods and systematic forms of enquiry (Cepeda and Martin 2005). The positivist approach recognises and supports validity. In meeting the requirements of this paradigm specific protocols and actively employed procedures for establishing validity are utilised. This paradigm holds the view that objective reality exists beyond the human mind. In considering this paradigm recognition is given to the three lenses through which the research report is reviewed - i.e. the researcher, the participants, and the external reviewers and readers of this research report.

The researcher’s perspective utilises triangulation as the procedure to ensure validity (Creswell and Miller 2000). Reflection of the presented data was carried out to ensure constructs, categories, explanations and interpretations made sense. This research report made use of several sources of evidence to ensure that triangulation was achieved.

The participants (interviewees) perspective was ensured through actively involving the participants in the validation (Creswell and Miller 2000). Following the interviews of all participants, transcripts of each interview were created. Each participant was asked to verify that the transcript was representative of his or her answer to the questions posed for each proposition. Once the results, discussions and conclusions were completed, a senior person within the Organisation was asked to review the research report.

The final lens requires that the people external to the study such as reviewers and readers are able to follow the chain of evidence from data to conclusion, noted as the audit trail (Creswell and Miller 2000). This study achieves this requirement through the researchers maintenance of a data base of all data collected that is available to future researchers if required.

3.2 Research Design

This study made use of the qualitative case study research methodology. According to Yin (2003) and Cepeda and Martin (2005), the case study is the preferred strategy to use when “how” questions are being answered, as well as when the focus is on contemporary phenomenon within a real-life context. This strategy allows investigators to retain meaningful characteristics of real-life events. This case study aims to determine “how” revenue enhancing synergies are successfully realised. The successful realisation of synergies is highly contextualised, a condition to which the case study method is well adapted.

One advantage to case study methodology as Yin (2003) points out is the direct observation of the persons involved in the events. Often subtleties can be observed that are not evident with other data collection methods. The case study also deals with all forms of evidence – documents, artifacts, interviews and observations. In the data-collection phase of this study, all forms of evidence were sourced to ensure triangulation of the information.

Another advantage of the case study method is the ability to adapt to varying contextual situations. Yin (1994:31) emphasises the issue of context in his statement that:

> "the major rationale for using this method is when your investigation must cover both a particular phenomenon and the context in which the phenomenon is occurring, either because (a) the context is hypothesised to contain important explanatory variables about the phenomenon or (b) the boundaries between phenomenon and context are not clearly evident."

Yin (2003:15) further elaborates on suitability for case study usage when he states, " the most important application is to explain the causal links in real-life interventions that are too complex for survey or experimental strategies ". This complexity is typical of M & As, which cover all industry sectors and vary considerably in motive, size, HR/cultural issues and potential synergies. While most studies isolate an individual factor that affects the success of M & As, the assumptions made by the readers are that all factors not under consideration are therefore equal. This is clearly not the case, which makes the case study methodology ideal in determining the key success factors in revenue-enhancing synergy realisation within a given context.

One of the disadvantages to the case study methodology is the restrictions on external validity. This study made use of a theory-testing approach within a specified environment, which approach recognises the fact that there may be a wide variation in alternative environments that could influence the evidence presented for a proposition. The external validity of this case would be restricted to similar environments only, a point argued by Calder, Phillips, Tybout and December (1982). External validity is achieved by the rich descriptions that case studies offer, which assist the reader in identifying the applicability of the report to his or her own environment. Yin (2003:31) supports this view and writes: " findings are generalisable to theoretical propositions and not to populations or universes ".

Another disadvantage of case studies is their historical lack of rigour, without which relevance in management research cannot be claimed (Scandura and Williams 2000; Gibbert, Ruigrok and Wicki 2008). Yin (2003) supports this view of lack of rigour where equivocal evidence or biased views of the investigators are allowed to influence the findings and conclusions. Yin (2003) sets out guidelines to ensure rigour in conducting case studies. These guidelines were followed in the conducting of this study. The concerns for rigour will be addressed in the sub-sections on validity and reliability.

The research design consisted of initially formulating the research propositions on the basis of the literature review. A single case study was selected based on the industry selected - the South African electrical engineering projects industry. The research was carried out using structured interviews and documented data for the purpose of evaluating the propositions.

3.3 Population and sample

3.3.1 *Case site*

The selection of the case site had to meet several criteria. It had to from the electrical engineering projects industry where revenue-enhancing synergies were expected to be realised following a merger. The implementation of the synergies would have had to be deemed to have been successful as defined in this study - when either the acquired company or the acquiring company in an acquisition can clearly attribute a proportion of its revenue to its association post-acquisition with the other company. Ideally the acquisition would have made use of corporate M & A advisors, which would add to the strength of the case by increasing the sources of evidence required for triangulation.

The Zest Electric Group are supplier of electrical equipment to the mining, manufacturing and municipal industries offering turnkey packages to their customers. The company is privately owned, with the current management owning 70% of the equity within the group. James Blakemore, the current group chairman, was founder of the group, which originally started as Zest Electric Motors in the 1980s. Zest Electric Motors was only one of two privately owned distributors in the world of Brazilian based WEG electric motors, drives, transformers and switchgear. The company was focused on distribution to the African Sub-Saharan region.

James Blakemore came to the realisation in the late 1990s that Zest Electric motors was reliant on imports, which led to a review of the future vision of Zest. The company also realised that its key blue chip customers were increasingly insistent that suppliers had to meet certain Black Economic Empowerment criteria. Medu-Capital, a private equity company with Ernst January as one of the directors, was brought in as a BEE partner. An unforeseen benefit that the private equity company would bring to the group was its core competency of acquiring companies. Between 2005 and 2008 the company has undertaken several acquisitions driven by the strategic objectives of the group to reach a local content of 50% on all its orders. This research report covers the acquisitions of IMS Cape, Shaw Controls and EnI. (See chronology of events set out in Appendix B.)

IMS Cape is an engineering company based in Cape Town. It is a manufacturer of diesel generator sets and offers maintenance services for diesel engines.IMS Cape also is a distributor of diesel engines. IMS started building generator sets in 1976 and had established an excellent reputation prior to the acquisition with its customers. With the pending power crisis, coupled with the potential to grow the IMS business, Zest acquired IMS in 2006.

Shaw was brought into the Zest stable in 2007. Founded in 1980 and based in the South of Johannesburg, the company manufactures sheet metal enclosures and bus bars. It fits and wires panels and control systems, which are supplied as motor control centres (MCCs). It also deals with distribution boards, control desks, PLC panels, instrumentation control panels and portable substations. It brought the capability of design and supply of conventional MCCs, as well as packaged switchgear solutions for projects of all types to the Zest Group. In addition to the acquired capabilities, revenue-enhancing synergies through a shared customer base were perceived by the companies.

EnI was established in 1984 and offers services to manage turnkey electrical projects from procurement through to design, control, installation and commissioning on electrical and instrumentation elements of projects for mines, municipalities and industry. EnI was acquired in 2008. EnI brought with it its construction-experience capability, which was previously lacking in the Zest

Group. The potential to share customer bases with the Zest Group held huge revenue-enhancing synergy potential for sales revenue growth.

The companies in the drive motor industry tend to offer very little in terms of service and customisation to their customers. The Zest Group was striving for differentiation from its competitors through enhanced service offerings. Through the Zest acquisition trail, the Zest Group has increased its total package offering to its customers and turnkey packages are now offered to its clients. The group was able to increase its project sales value post-acquisition due to the synergies between the companies. The Zest Group was an excellent single-case study site as it had made several acquisitions that could be looked at to source examples of challenges faced in realising revenue-enhancing synergies.

3.3.2 *Sample and sampling method*

In order to achieve the triangulation requirements, focus was given to sourcing evidence from four different sources. These were to be interviews, documents, archival records and direct observation.

Interview candidates were selected on the basis of their perceived ability to offer a different perspective and supporting evidence that the various propositions to revenue-enhancing realisation success had been met. The interviewees were selected based on their role in the realisation of the revenue-enhancing synergies. A convenience sampling method was utilised. While the convenience sampling method has inherent bias, the criterion of direct involvement in the realisation of revenue-enhancing synergies limited the scope of the sampling population. Where available, annual statements were utilised and supporting documents were collected.

Table 3.3.2: Profile of respondents

Description of respondent type, e.g. manager, Union representative, student	Number sampled
Director	1
Management of acquiring company	1
Due diligence practitioners	2
Management of acquired company	3
Due diligence advisor	1

3.4 Interviews

The predominant information gathering tool was semi-structured interviews. Open-ended questions designed around providing evidence for the acceptance or non-acceptance of the propositions raised in Section 2.6 were used. The interview questions were designed for the specific function of the employee being interviewed within the acquisition process. The questions were aimed at management, due diligence practitioners as well as implementers of the revenue-enhancing synergies. (See Appendix A for the various interview questionnaires used.) The propositions formed the framework against which the questions were structured.

3.5 Procedure for data collection

The propositions were used to guide the data collection carried out. Yin (2003) identifies six sources of evidence that a researcher can use for triangulation. The six sources of evidence are:

- **Documentation** – examples include agendas, announcements, minutes of meetings, and media articles;
- **Archival records –** examples include organisational charts, lists of names and other records;
- **Interviews;**

- **Direct observations** – observations made by the researcher of relevant data such as behaviours or environmental conditions;
- **Participant observations** – can be used where the researcher plays an active role in events; and
- **Physical artefacts** – could be any physical evidence that can be used as data such as works of art, a tool or an instrument.

This study made use of four sources of evidence to ensure triangulation. These were documentation, archival records, interviews and direct observations.

Media articles were reviewed prior to the interview phase to obtain an understanding of the organisation. These articles served as data considered for each proposition. Additional documentation required was predetermined and sourced with the assistance of the management / interviewees and included minutes of meetings.

Various archival records were obtained as evidence to support the research. A copy of each acquisition's due diligence report, as well as organisational charts, was obtained at the end of the field-data-collection stage.

The interviews were scheduled on-site at the various acquisitions as well as the Zest head office. The interviews were held in either the projects room or the board room at the various companies. The questions relating to each proposition in Appendix A were used in the semi-structured interviews.

Direct observations were made at each site of the working environment, as well as observations of the work force. These observations were possible at all sites except for IMS Cape because of geographical constraints.

3.6 Data analysis and interpretation

The most preferred method for analysing the data according to Yin (1994), is to use the theoretical propositions that have been developed from the literature as the framework for the analysis as this sets the boundaries for the unit of analysis. The evidence presented must allow an external viewer to follow the logic from initial research propositions to final case study conclusions.

Creswell and Miller (2000) describe the process of content analysis as a systematic process of sorting through the data to find common themes. Corroborative methods utilising different methods of data collection (e.g. interviews, documents) are then used to locate major and minor themes.

The propositions set out in Section 2.6 formed the framework around which the data was analysed. Pattern matching as described by Trochim (1989:357) is “an attempt to link two patterns where one is a theoretical pattern and the other is an observed or operational one”. The theoretical patterns are derived from the theories or propositions (predictions) that lead to the interview questions. The interview questions and propositions were used to guide the data collection. A clear chain of evidence is therefore established from the data back through to the propositions. When the patterns coincide, it may be inferred that there is a match and support is given to the proposition (Yin 2003).

This study made use of both various interviewee perspectives and supporting documents to ensure the narrative did not rely on a single data point in reaching support or rejection of a proposition. In this way triangulation was achieved.

3.7 Limitations of the study

- The case will not have longitudinal depth (Yin 2003) - i.e. data collection over time and the determinants of success factors are based on data collected at a specific cross section in time. As the case-site selection criteria required successful realisation of revenue-enhancing synergies, the lack of longitudinal depth did not have an effect on the study’s interpretations.
- Inferences made as a result of the researchers’ interpretations may be challenged due to possible rival explanations (Yin 2003). By maintaining a separate database, this research report maintains a chain of evidence leading to the conclusions. This database can be utilised by future academics to follow the reasoning given in this research report.
- The different sources of evidence data were not always available to support each acquisition. The IMS Cape interview with Eugene Coetzee

was telephonic, which removed the personal aspects of the interview. In addition, the researcher was unable to witness the Cape IMS offices in person, which did not allow for personal observation data collection regarding the professional appearance of the offices.

3.8 Validity and reliability

3.8.1 *External validity*

External validity is the extent to which observed causal relationships can be generalised to and across organisations (Calder et al. 1982). One of the disadvantages to the case study methodology is the restriction on external validity. Yin (2003), however, suggests that case studies are only generalisable to theoretical propositions and not to populations.

This study used a theory-testing approach within a specified environment, which approach recognises the fact that there is a wide variation to an environment that could alter the evidence presented for a proposition. The external validity of this case would, therefore, be restricted to environments where the reader is able to discern similarities with the context of the case site used for this research project. In enhancing the external validity, Cepeda and Martin (2005) suggest the findings should include “thick descriptions” that allow readers to assess the transferability of the findings to their own settings. This study attempted to create these “thick descriptions” to enhance the readers’ understanding of the applicability of the findings within the case context. The readers are then able to decide on the transferability of the conclusions.

3.8.2 *Internal validity*

Internal validity is the extent to which the researcher has provided a plausible causal argument (Dube and Pare 2003). The reasoning used to reach the research conclusion should be plausible. One tactic proposed by Yin (2003) is the use of pattern matching to strengthen internal validity.

The propositions set out in this research report form the framework for the presentation of results and the resultant discussions and conclusions for each proposition, as recommended by Yin (2003). Pattern matching has been utilised in linking the data collected to the framework of propositions and considers alternative explanations for the data in the discussion section and in the conclusions.

3.8.3 *Construct validity*

Construct validity is the extent to which a study measures what it claims to measure. Yin (1994) proposes three measures to ensure construct validity. First, researchers should establish a clear chain of evidence. This allows readers to reconstruct how the researcher went from initial research propositions to final conclusions. Second, multiple sources of evidence must be used to encourage converging lines of inquiry - triangulation. The third requirement is that key informants review the draft case study report.

This research collected data from multiple sources which included interviews, documents and archival records. In evaluating the propositions, the data was used with clear links between the data and the propositions through ensuring the propositions formed the framework for the research. The research report was then reviewed by the key informant, the projects director at the Zest Group prior to finalisation.

3.8.4 *Reliability*

Yin (1994) proposes the use of a case protocol and a case database to enhance reliability, which ensures another investigator could arrive at the same conclusions. The case protocol is a set of procedures and general rules that must be followed when conducting the interviews and should be set prior to the data-collection phase. The case database is essentially all the data records used in the analysis that are kept for later referral by an investigator if needed. The goal of reliability in a study is to minimise errors and biases (Dube and Pare 2003).

The research was conducted according to the case study protocol as laid out in the methodology chapter. The case protocol was the process of utilising the propositions as the framework for the four stages of data collection, results presentation, discussion and conclusion. All data collected was placed in the case database, which is available to facilitate replication of the study.

4 PRESENTATION OF RESULTS

4.1 Introduction

The results chapter is arranged according to the data gathered for each proposition. The results are presented in a descriptive format and were extracted from the various sources of data collection required for successful triangulation. The main source of data was the interviews. All facts that are presented without direct quotes or source references have been extracted from the interview transcripts that are in the study's database. Additional supporting data from other sources of evidence are only quoted within the descriptive text when they add depth to the descriptive narration and are referenced to their source of evidence within the database.

4.2 Results pertaining to proposition 1

Revenue-enhancing synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately from the target company valuation.

4.2.1 *Zest*

Each acquisition brought new capabilities to the group, thereby broadening Zest's contribution to its customers. The new capabilities each acquisition brought to the group created economies of scope, which would increase revenue for each company in the group. By broadening the product line, Zest has provided improved one-stop shopping for its customers. This strategy is evidenced in its Group Mission Statement Zest (2009a:2): " To be the largest specialized supplier of Electric Motors, Drives, Transformers and Switchgear, Cable, Generator Sets, MCC's, Electrical and Instrumentation works and Power Generation Solutions in Sub-Saharan Africa ". The sales/marketing synergies are further elaborated on in the Business Development Philosophy (Zest 2009a).

Zest leverages its large geographic footprint in Sub-Saharan Africa to maximise the group revenue across all industries. Its extensive network includes nine branches and a further nine distribution centres. As Blakemore explains (Holman 2008a:34): “ The companies are encouraged to leverage off the advantage of being in a group that has companies which bring additional business over and above their traditional sector.”

While the valuation of the revenue-enhancing synergies was not calculated by Zest during any of its acquisitions, care was taken to ensure that the target acquisition was accurately valued to ensure that Zest did not pay more than the target’s stand alone value according to Ernst January, a director of Medu-Capital serving on the Zest board.

The most common method used in all acquisitions made by Zest to value the target acquisition was the discounted cash flow (DCF) method. The WACC would be calculated for each company and used as the discount rate in the DCF model. In each case the market share and size would be utilised to determine the sales and the resulting expected cash flows for a five-year period. The price had been predetermined. As Warren Sandham, the Shaw financial manager and one of the due diligence practitioners during the Shaw due diligence, explains, “ The DCF was used mainly as a sanity check ”. In addition to the DCF, a multitude of models are used to ensure confidence with the value such as earnings before interest tax depreciation and amortisation (EBITDA) multiple, various multiple ratios such as earnings before interest and tax to EBITDA, and price earnings ratios. The actual values of the synergies were never calculated. According to Ernst January, the approach of valuing the business to determine the price you are prepared to pay for the acquisition must not include value extracted through synergies. “The principle we follow is that you do not pay for value that you bring.”

After the price is agreed upon, the acquisitions are then looked at from a synergistic value addition to the group. The business plan would then take into consideration an estimate of the extent to which the group could leverage additional sales through the group’s vast sales infrastructure. The actual calculation of the additional work does not follow a specific model and tends to be derived from reflection rather than scientific calculation. The market size is considered, as well as the estimated market share growth within the market size.

The vertical integration of the companies is considered. The projects division will look at how it can leverage the business within the group to better offer the customer a one-stop integrated solution (Holman 2008d).

In addition, the group brings a bigger balance sheet to the acquisitions. This allows the companies to deal with much larger projects than they were capable of handling on their own. The group is able to obtain the finance required to fund the increased working capital required for the bigger projects. Common services are also looked at - for example, HR, IT, and the group finance/accounting capabilities. The know-how in these areas is considered in sharing these services and transferring best practise.

4.2.2 *IMS*

IMS would bring manufacturing of complete generator sets (gensets) know-how into the group. The Zest alternators from WEG could be used in the IMS gensets and this was recognised as a synergy early on in the initial public announcement of the acquisition. This would provide revenue-enhancement to Zest.

During the due diligence (Medu-Capital 2006) notice was taken of the limitation brought about by the IMS market being confined to the Western Cape/coastal regions. The inland market was considered by Zest to be far greater, as well as the potential to expand into Africa. As Eugene Coetzee, the Managing Director (MD) of IMS Cape, points out, “Zest also had a vast number of branches with a good sales and marketing team that was expected to improve the IMS turnover”. It was evident in the due diligence that IMS did not have an aggressive marketing strategy or plan. IMS spent a meagre R22,400 on advertising in 2006 and was expecting to spend R28,000 for 2007 (Medu-Capital 2006). IMS had no formal sales team. It was considered that IMS’s share of the market in the Western Cape was indeed smaller than IMS Cape had originally estimated. Nhlanganiso Mkwanazi, the Medu-Capital due diligence practitioner, made the following observation during the due diligence (Medu-Capital 2006:29): " I had discussions with two project companies in cape town who were sourcing gensets from Johannesburg, unaware of IMS Cape ". Forecasts for revenue were made during the due diligence (Medu-Capital 2006:18): "The basis for this assumption is that IMS Cape trades as if for the foreseeable future, no major capital expenditure is made and no leverage of the Zest national footprint occurs."

According to Gary Daines, the Zest projects director, the increase in IMS sales through Zest has improved: "the sales of gensets directly through Denver Hewitt, an IMS Cape sales representative based in Johannesburg, is sitting at about 15% of IMS sales and is expected to reach 20-25% for the 2009 year". In addition, the group sales on projects are monitored.

4.2.3 *Shaw*

There was an established shared customer base between Shaw and Zest. In addition, both companies would be able to introduce each other to new large customers. New tenders were anticipated as a result of these new introductions. This was achieved as evidenced in the Engineering News (Holman 2008e:42): "Shaw Controls now undertakes large-scale turnkey projects in conjunction with Zest, for which it has managed to establish a reference base". A good example of this was the Chemwes project where Shaw supplied 14 motor control centres which controlled over 250 motors largely supplied by Zest (Zest 2009b). Warren Sandham could see during the due diligence that the Zest marketing know-how would be able to exploit the shared customer base. It was noted in the due diligence that Shaw did not have any marketing department or sales staff (Zest 2007).

Shaw was seen to bring enhanced capabilities in terms of Switch gear and variable speed drive technology. Bevan Richards, the Shaw MD who was the Shaw General Manager (GM) prior to the acquisition, believed that within the forecasting to determine the value of the company, considerations were taken into account of the increased sales Shaw might realise. Bevan did not, however, believe that this figure was an exact amount within the forecast. Post merger, a target turnover was projected for Shaw moving forward. This target was exceeded by 10% that first year. It would be difficult to measure the absolute synergistic gain, as a great deal of the additional business brought in through Zest was already existing customers of Shaw according to both Bevan Richards and Gary Daines.

4.2.4 *EnI*

Richard and Robert Miller, co-owners of EnI prior to the Zest acquisition and currently MD and projects director of EnI respectively, believed that the BEE status Zest would bring to EnI would allow the company to grow, particularly within the mining sector. Potential new customers as a result of the BEE status were identified in the due diligence (Medu-Capital 2008). In turn there was also a complementary customer base as well as additional capabilities being offered to the Zest customers to improve the total package offered. As Richard Miller stated: “Zest has strong connections in a very wide network and their marketing arm was excellent”. The due diligence made reference to the fact that EnI did not perform any marketing or advertising activities and only relied on referrals (Medu-Capital 2008). It was, however, important to be cognisant of the fact that some customers may now perceive EnI / Zest to be competitors, requiring careful management of these relationships to ensure the Zest Group did not alienate any existing customers. In turn EnI would fill what was previously a void in Zest’s service offering. It was clear that EnI would also be able to incorporate Zest’s soft starters, motors and VSD drives into their projects. This would add to the total package offered to customers of the group (Holman 2008b).

Ernst January also believed that EnI’s presence in Ghana and Zambia could be utilised by the group. EnI’s presence in Ghana was also recognised during the due diligence (Medu-Capital 2008). Its presence in Ghana would assist Zest in market expansion in these areas according to Ernst January. Again the bigger balance sheet could be utilised by EnI to tender on larger projects. EnI were also involved across a variation of sectors (Holman 2008b). During the due diligence strong relationships with some of the large project management houses was noted (Medu-Capital 2008), a key element to Zest's strength as a group.

Neither Shaw, IMS nor EnI had synergies specifically evaluated. In each acquisition case the financial model used to determine the purchase price for the acquisition was based on the perceived value of the organisation in line with its current market share and any expected changes going forward. Zest never formally evaluated the potential values of any synergies during the due diligence stage of an acquisition. The business development plan would be the yard stick for growth between the companies in terms of synergy realisation.

The revenue-enhancing synergies are, however, specifically considered at the due diligence stage and by Zest prior to each acquisition. Zest has a clear idea of the synergies going forward even though no specific valuation is placed on these synergies.

4.3 Results pertaining to proposition 2

The due diligence should test all assumptions related to the financial model used to determine the value of the revenue-enhancing synergy.

4.3.1 *Zest*

Revenue-enhancing synergies were never specifically valued. As a result, there were no assumptions taken into account in terms of the synergies from a strictly financial perspective. The DCF model in each case was the main determinant of the price that Zest was prepared to pay for each acquisition. Considerations rather than assumptions were made during the due diligence regarding the requirements that would be necessary to bring each acquisition in line with Zest in order to capitalise on the revenue-enhancing synergies (Medu-Capital 2006; Zest 2007; Medu-Capital 2008). Only with the IMS acquisition were actual costs allocated to additional resources that would be required. However, these were not specifically aimed at revenue-enhancing synergy realisation, but rather at meeting the demand that had resulted from the Eskom power shortage crisis that had just started.

The assumptions made for the DCF models used to evaluate the price Zest was prepared to pay for each acquisition were standard assumptions made utilizing the DCF model (Firer et al. 2004). During the due diligence some of the more important areas focused on were: debtors, creditors, cash flow management, inventory, competitor analysis(Medu-Capital 2006; Zest 2007; Medu-Capital 2008). Many other finer details typical of valuation models were evaluated during the due diligence stage to ensure the model's reliability. Sustainable earnings projected for the stand-alone organisation was discounted to the present. Medu-Capital determined the various assumptions required that are specific to the financial model used. Any extraordinary items were removed to determine sustainable cash flows.

There were strategic discussions around the potential revenue-enhancing synergies. Zest owned the discussions, according to Ernst January, as Zest will ultimately have to deliver on the synergies. As Ernst January explains, "They will be asked at the end of the day, where is the benefit?"

4.3.2 *IMS*

The appointment of several new personnel was considered. These included an increase in the sales force, an additional engineer, as well as additional production staff (Medu-Capital 2006). Additional staffing needs identified during the due diligence included an accountant, a full time MD, wiremen for the floor, with a cost being allocated to these additional staffing requirements. Eugene Coetzee also identified the need for a sales and marketing team during the due diligence to assist with further growth.

A revamp of the IT system including an ERP system was forecasted in the due diligence report (Medu-Capital 2006).

Constraints in the production facility were noted. In order to meet the potential inland market, the due diligence report noted that urgent capacity constraints would need to be met (Medu-Capital 2006). Included in the costs to address the production constraints at IMS were immediate capital expenditure requirements. A revamp of the IMS building as well as furniture upgrades were identified.

4.3.3 *Shaw*

From an implementation-cost perspective at Shaw, a revamp of the entire IT system, which would include a syspro accounting system, was considered (Zest 2007). An improvement to the accounting system was required in order to meet the financial reporting standards that would be expected by Zest. As the due diligence pointed out (Zest 2007:10), "There is no job costing system in place and actual costs of production are never compared to budgets or estimates". In addition, work in progress (WIP) was incorrectly valued, which indicated the need for an ERP system.

The continuity of the relationships with the various mining and project houses was considered, as well as the impact this would have on Shaw. There was no value attached to the potential impact.

It was apparent that additional staff would be required. It was taken into consideration that an accounting person would be needed, a general manager, as well as additional engineers. Noted during the due diligence (Zest 2007) was the lack of an engineering design team that could offer after-sales service in line with Zest's professional approach. The need for additional staff in the projects tender department was also identified to meet the quick response times that Zest would expect.

The need for automated equipment to improve production capacity was noted at the due diligence stage (Zest 2007). Zest was planning to improve the production capability. as Gary Daines mentioned, "Shaw was limited by capacity last year and the investment in new computer notation control and bending machines will increase their capacity to meet the additional work brought in by the group".

4.3.4 *EnI*

Zest saw the potential for growing its footprint in Ghana. With EnI's insight into working in Ghana, Zest planned to open a Ghanaian office (Medu-Capital 2008). Ernst January recalls "As a result of EnI's exposure in Ghana, Zest planned to and has subsequently opened a complete branch with stock holdings in Ghana as well and are now working in conjunction with EnI in this region."

The only consideration from an organisational perspective covered at the due diligence stage was the need for succession planning at EnI (Medu-Capital 2008). An engineer was brought in for this purpose. While the quotations department has become busier according to Richard Miller, it would be difficult to quantify the increased load as many enquiries would have been direct and now come in via Zest.

According to Richard Miller, "A huge savings to EnI is the extensive marketing they receive through the Zest marketing arm". The savings versus benefits cannot be quantified but Miller believes these have been and will become even more extensive.

4.4 Results pertaining to proposition 3

Clear implementation plans will improve the probability of fully realising the revenue-enhancing synergies.

4.4.1 *Zest*

Zest has several approaches to achieving the increased market share synergies between the companies within the group. These approaches take advantage of the strong customer base that each acquisition brings to the group as well as the marketing know-how of Zest.

In order to capitalise on the group's large customer base, the group makes use of leveraging off powerful relationships with their customers. As Gary Daines stated in Engineering News (Holman 2008d:38): "The relationships with all end users in the market across the spectrums of mining, petrochemicals, paper and processing industries, together with the relationship built up over many years with companies and consulting engineers have led to the success of the projects division". Trevor Naude, the Zest Group's business development manager, gave some insight into these relationships, which are established at two levels. The first relationship level is at the customer head offices. The second relationship level is established with the various project houses. The relationships established at the corporate head offices result in the Zest Group being aware, at an early stage, of a pending project. As a result of this early warning, Zest is aware of which project houses will be conducting the work. These project houses are in turn approached directly at the start of projects through established relationships within the Zest Group. Gary Daines elaborates on the relationship approach taken by the Zest Group in an Engineering News article (Holman 2008d:38) when he states, "...growing the business further in the market by building relationships on different levels". The business development strategy has become far reaching, by offering products directly to South African, Australian and Canadian project and mining houses that are operating in Africa. At the same time the end branches, which are allocated near to the projects, are notified and they too will have an engineer approach the project house to assist with any design work right from the project initiation, according to Trevor Naude. This leveraging of powerful relationships is depicted in Figure 4.4.1 and is entrenched in the selling strategy of the Business Development Philosophy (Zest 2009a).

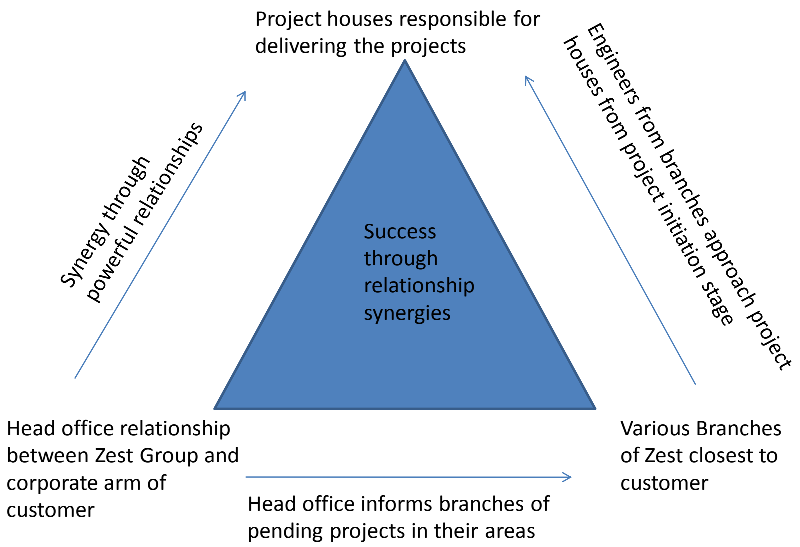

Figure 4.4.1: Relationship leveraging within the Zest Group

One of the approaches makes use of executive committee (exco) meetings. The strong customer base between the various companies in the group creates opportunities for cross-selling by means of well-established customer relationships. This large customer base is a powerful network that can be utilised by the group. In order to realise the synergies of its customer base, Zest has established exco meetings at each of the acquired companies. A director from Zest is assigned to each acquisition. Gary Daines is assigned to Shaw controls, Louis Meiring is assigned to EnI, and Gary Daines and Louis Meiring are assigned to IMS. The directors from Zest attend these exco meetings, which are held on a monthly or every alternative monthly basis. On the agenda at each exco meeting is a strategy for the handling of future tenders (Zest 2008). Tenders are reviewed to identify the possibility for cross-selling. The tender reviews create awareness of all the projects the Zest Group of companies is currently quoting on. This ensures that the entire group shares in the knowledge of what projects are available and thereby ensures maximum exposure to the group on each project, according to Trevor Naude. The cross-selling approach of the Zest Group is detailed in the Zest Business Development Philosophy (Zest 2009a:5) to firstly “maximise our sales effort across the group,” and to “identify opportunities by group quote/by project”.

To further enhance the market share synergies, the projects division at Zest has been adapted to ensure that projects can be maximised within the group. “The projects division of motors, drives and switchgear group Zest is pivotal in supporting the growth strategy of the group by bringing all its products together” according to Zest projects director Gary Daines in Engineering News (Holman 2008d:38). The projects department holds a monthly meeting whereby each organisation within the group has a representative present at the meeting. These meetings will focus on projects only, according to Trevor Naude. The focus of the meeting is aimed at offering the customer a turnkey package by utilising all the available capabilities within the Zest Group. To date successful projects of this nature have included Smokey Hills and the Chemwes projects (Holman 2008d). Smokey Hills involved the supply of motors (Zest), drives (Zest), transformers (Shaw), generator sets (IMS) and cable. The projects division has been structured within the Zest Group to ensure the projects division has direct lines of communication with the entire group, as depicted in the group organogram (Zest 2009c).

In order to keep track of the various jobs that are quoted on, project names are allocated to the various projects - such as ‘Smokey Hills’ - to ensure that the members of the group are aligned with each other on what is being quoted for to prevent any duplication of work. In addition, project name allocation allows the Zest Group to pull all the information together to ensure the projects division can expand on what is offered to the customer. This ensures that the group can expand on the group offering wherever work has not been quoted on. The success of the combined group projects is monitored and reported on as seen in the Group Business Development Plan (Zest 2009b) where average product value by project and total product contribution by project are monitored.

In order to realise market share synergies between the companies it was important for the Zest Group projects’ salesmen to undergo training. Bevan Richards remembers, “ Zest’s lack of understanding of Shaw’s capabilities was a problem at first ”. He feels that the projects’ salesmen’s knowledge of Shaw capabilities has improved dramatically and can still improve further. Shaw conducts training meetings with the Zest marketing and sales team to ensure it is kept up to date with Shaw’s product development and how Shaw’s products can be utilised in various projects. These training sessions also tend to be a two-way process where feedback is given on customer satisfaction with Shaw-supplied products in the various projects to ensure Shaw is always supplying to customer demands and expectations. The training is carried out between all the companies to ensure that the group salesmen are kept up to date with the full capabilities within the group. The power of this cross training is evident as explained by Trevor Naude:

> “We are sitting in a meeting with a guy who has approached us for motors and variable speed drives and the next minute the lights come on when we then say we can build the panels. Once its built, while Shaw’s on-site commissioning the panels, we will also get EnI, whom we also own, to lay the cables that you bought from Industrial Cables whom we also own. So they

> have bought the cables from Industrial Cables, they have bought the MCC's from Shaw, they have bought the motors and the variable speed drives from Zest as well as the transformers and EnI will come along and consolidate this and you can speak to me. If EnI are not performing I am your man, you can bring any problem on the project directly to me and I will be there at the customer's beck and call. So that is how we sell projects. We sell in such a way as to draw in the other companies in the group."

Zest's marketing strength is a crucial support service that is utilised by all the Zest Group companies. The Zest marketing know-how ensures that each company is more prominent than they had been prior to acquisition in the market place and that the market is aware of the Zest Group's entire support capabilities. A typical examples of Zests Marketing ability is found in the Zest Group Brochure and DVD (Zest 2009d), which indicates the various capabilities of the Zest Group. As the revenue-enhancing synergies are directly driving the group sales, the marketing department is key in supporting the realisation of these synergies. Professional Zest brochures are produced that cover each company within the group separately. Each brochure depicts the different companies individually as well as the group capabilities to ensure maximum exposure and customer understanding of the group capabilities. A professional and capable image is portrayed for the entire group, with the potential synergies between the groups very apparent.

Zest also has an approach to implementing the various resources required at each acquisition in order to realise the synergies. As Gary Daines explains: "We focus on the hard core issues first. The office buildings are upgraded, the necessary people are employed and the IT infrastructure is established." As evidenced in the company culture presentation (Zest undated:12) given to all new employees, the Zest approach to the working environment is one where: "We believe that all employees should have a pleasant and comfortable work environment with modern technology to assist them wherever possible in the performance of their duties."

4.4.2 *IMS*

IMS as a wholly owned subsidiary has two sales personnel based in the Johannesburg head office to ensure that IMS is incorporated into all the projects carried out by the Zest Group. Denver Hewitt from IMS is regularly drawn into the projects to ensure that IMS maximise its supply to the project.

Serious capacity constraints were identified during the IMS due diligence (Medu-Capital 2006). With the additional work coming in through the Zest Group as well as the demand for gensets within the context of the power crisis, expansion was planned for a plant in Epping as reported in the Engineering News (Holman 2008c:47), "...the construction of the company's new factory in Epping, Cape town, which will also enable the company to build gensets of up to 1000KVA for stock." The Epping plant was commissioned in October 2009. The office block of IMS Cape was upgraded to create a more professional look. Additional staff appointments were made after the due diligence, such as those of sales staff (Medu-Capital 2006).

4.4.3 *Shaw*

Additional staff requirements were identified during the Shaw due diligence for the engineering department and the accounts department (Zest 2007). Personnel were appointed to the engineering department, Paul Springorum as GM as well as Warren Sandham to the financial manager's position.

It was clear to the due diligence practitioners that the accounting of work in progress was inadequate and in some instances, such as the WIP valuation, inaccurate (Zest 2007). The need to carry the book keeping system over to the syspro platform was identified during the due diligence as well as the considerable attention that would be required to complete this task. The due diligence practitioner who carried out the accounting assessment was then made responsible for the implementation of the accounting system after the acquisition of Shaw.

Shaw had a ‘low cost no frills’ approach to running its business. The furniture in the company was made in-house and looked shabby, according to Warren Sandham. It was identified that the Shaw offices would need to be upgraded to meet the professional image that Zest portrayed. Engineering News reported the offices were being upgraded at the Robertsham plant (Holman 2008e). This was carried out and Shaw now has a well laid-out office administrative block that holds all the key personnel and has an interior resembling that of the Zest head office. The engineering department is open plan to promote communication. The offices are very modern, with all staff having easy access to each other. Previously the engineering department was split in separate work locations.

An entire revamp of the IT system was required. The company originally had only two email addresses. Now everyone at Shaw has access to their own emails. Linking the IT infrastructure through to Zest was also a big project that was carried out. All employees at Shaw have welcomed the approach taken by Zest to ensure all employees have the necessary resources to carry out their daily tasks.

Additional factory space would be required with the anticipated increase in work load from Zest. This has been done effectively, with Shaw renting factory space from Zest in Linbro Park. As mentioned by Bevan, the Zest Group had purchased a new facility close to its head office in Linbro Park and Shaw was utilising the facility, whilst still maintaining its current facilities in Robertsham, south of Johannesburg.

Zest ensures that all new personnel are aligned to the Zest approach to doing business. As Bevan stated: “ Zest also has an induction system for the group. Any new staff appointed at Shaw attends the induction session at Zest which informs them about the group and who the key personnel are that they will be dealing with at Zest. ”

Production constraints were identified in the due diligence (Zest 2007), with the potential to increase capacity through introducing CNC machinery for the sheet metal processing. Further plans to increase productivity through capital expenditure on new machinery was also mentioned in Engineering News (Holman 2008e).

4.4.4 *EnI*

EnI had exposure in Zambia and Ghana prior to their acquisition by Zest. As Ernst explains, “ There was definite knowledge sharing between the two companies that was evident at the due diligence stage ”. In Zambia EnI had a division while Zest had a distributor. These two satellites have started working together. EnI’s experience in Ghana was used to launch a Zest branch with stock holding in Ghana. The two Ghanaian branches now work together (Holman 2009).

With EnI the identification of cross-selling between the organisations were clear to both Gary Daines and Richard Miller. EnI’s good relationship with engineering houses was recognised during the due diligence (Medu-Capital 2008). It was also noted that relationships EnI had in the construction industry were a driver in the companies’ ability to obtain contracts.

4.5 Results pertaining to proposition 4

Implementation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies.

4.5.1 *Zest*

Zest addresses the infrastructural requirements within the first year following an acquisition. The infrastructural issues addressed include the accounting system, appointment of new personnel required to align the companies, improving the work environment for employees, as well as improving the professional look of the acquisitions offices. Where office blocks did not meet Zest standards for portraying a professional image, new offices were built as was the case with both IMS and Shaw.

While the implementation of the infrastructural aspects to the businesses was important to realising revenue-enhancing synergies, the actual sales to the group in terms of revenue-enhancing synergies were almost immediate from the projects division side. As Trevor Naude recalls, “ Tenders were coming to the table even before the agreement was signed. The interaction to realise synergies from a sales perspective was immediate ”. The projects department was restructured and strengthened following the IMS acquisition. The exco meetings and project meetings were started at different stages - IMS and Shaw after a year and EnI immediately as the Zest Group now had an established process for realising the revenue-enhancing synergies.

4.5.2 *IMS*

The IMS Cape office did not have a permanent managing director based at the office prior to the acquisition of IMS. Following the acquisition, Eugene Coetzee was appointed as MD to be permanently stationed at the IMS Cape offices.

The production capacity constraints were highlighted in the due diligence report (Medu-Capital 2006) where they were described as needing to be ‘urgently’ addressed. No time schedule was specified for this requirement and the new Epping plant was commissioned in October 2009.

4.5.3 *Shaw*

During the due diligence no time schedule for appointing the necessary personnel was mentioned at all. While the various requirements such as additional personnel, increased production capacity and revamping the accounting/IT systems were discussed in the due diligence report (Zest 2007), no schedule for implementation was given. However, as Ernst January mentions, “ There are no specific time frames established, we want to do the basics in the first year ”.

At Shaw Warren Sandham was appointed as financial manager immediately following the acquisition, while Paul Springorum was appointed as general manager three months later. Further appointments were made in the engineering department within a few months. In addition, the accounting system was addressed immediately but the upgrade of the system took a year to implement.

4.5.4 *EnI*

Succession planning was a Zest requirement that was addressed by EnI straight after the acquisition with the appointment of an engineer. This issue was also noted in the due diligence (Medu-Capital 2008). No further mention was made during the due diligence regarding any time expectations for implementing the increased revenue-enhancing synergies.

4.6 Results pertaining to proposition 5

Integrating cultural differences is essential when integration interaction is high.

4.6.1 *Zest*

A very strong customer focus is pivotal to the Zest culture. The organisation is entrepreneurial and innovative, according to James Blakemore (Holman 2008a). Zest portrays a professional image within a professional work environment, with a strong emphasis towards socialising both within the organisation as well as with customers.

The open plan office arrangement at Zest was decorated with modern. The Zest Business Culture Induction Programme is clear (Zest undated:5), “We take pride in having a professional attitude in all our dealings with our customers and have an uncompromising determination to offer the best services and products available.” The induction programme further urges a professional approach by all Zest Group employees (Zest undated:7) to customers by, “responding to all their requirements with a sense of urgency and accuracy in all respects. Look after the small things like ensuring that names and details are correct, especially the spelling.”

At a later interview with Trevor Naude, his passion and enthusiasm for the Zest Group resulted in the scheduled time for the interview being overrun. This eventually resulted in Gary Daines putting his head into the room to jibe, “ Trevor, you can let him go now! I promise he is not going to buy a motor from you! ”

Zest’s focus on its clients is evidenced in several areas:

- “…the training centre is responsive to end users’ needs…. Industry has started looking to Zest to provide training, thereby filling a gap to help end users improve the skills within their operations.” (Faurie 2008:49)
- A branch was opened in Mpumalanga to facilitate a quicker service to customers both in terms of product and technical support. Zest now has 17 branches nationwide at year end 2009.
- James Blakemore stated in Engineering News (Holman 2008a:34), “ that the long-term strategic view is to build a good, large group of like-minded customer-focused companies ”.
- As stated by Trevor Naude, “ The culture dictates that problems are solved at the customer at all cost ”.
- The Business Development Philosophy (Zest 2009a) urges employees to listen to the customer.
- Included in the mission statement (Zest 2009a:2) is the requirement: “ To serve our customers promptly and efficiently with courtesy and enthusiasm. ”

There is an entrepreneurial drive at Zest that permeates from the top down through the organisation. As Gary Daines explains, “The message we try to send is to be more innovative within the work environment.” James Blakemore was winner of the Ernst and Young World Entrepreneur award in 2008 and describes his management style as hands-on and open-door in the Engineering News (Zhuwakinyu 2009). The Business Culture (Zest undated:6) states, “Individual creativity and action is always encouraged but it is working as a team that the best results are often obtained.”

4.6.2 *IMS*

IMS did not have the customer-orientation focus that Zest had at the time of being acquired by Zest. Eugene Coetzee contrasts IMS's business approach with the approach taken by Zest: "Employees [at IMS] saw the market as engineering first and the sales would then follow on from there. Zest saw the business as customer first and then the engineering would follow later." IMS has changed its approach to customers, with Eugene Coetzee commenting in the Engineering News (Holman 2008c:47), "IMS has had many successful projects recently and the company tries to satisfy all its customers and make all its projects successful. The company focuses on after sales service and is continually developing this."

While IMS has adapted to be more customer orientated, it is felt by Gary Daines, Ernst January and Trevor Naude that the geographical separation of IMS hinders the cultural alignment process with Zest. The cultural differences between Zest and IMS are evident with Denver Hewitt, the IMS sales representative based at the Zest head office in Johannesburg. According to Gary Daines:

> " Denver is exposed to the Zest cultural environment but reports into the IMS culture. This has highlighted the cultural differences and has brought some challenges according to Gary Daines. Zest expects that certain things are carried out the Zest way. For example an invoice or quotation, the way we represent our organisation, a response to the customer, the way a customer is valued all has a strong focus at Zest but is not as critical at IMS. "

IMS has a more rigid management style rather than the entrepreneurial, open-door approach championed by the Zest directors. IMS is firm and particular about how things are to be done. Eugene Coetzee's comments on the IMS culture were, "The IMS culture was very strict but fair. Strict procedures had to be adhered to." As Gary Daines states, "His style tends to be more old school where the management dictate how things must be done." Daines felt that while

Coetzee was highly competent in his area of expertise, his management style would hinder the full alignment of the IMS culture to that of Zest.

Upgrading of the IMS offices with the building of a a new modern plant in Epping has helped change the image of IMS. It has adapted to a more professional look, which the Zest Group tries to use in marketing IMS to its customers (Zest 2009d).

While IMS has adapted to certain aspects of the Zest way, it is culturally a very different company. It would appear that IMS will not conform to the Zest culture entirely. As IMS is a wholly owned subsidiary, Zest has a sales representative Denver Hewitt based at the head office in Johannesburg. This has resulted in reducing the interaction on a daily basis between the Zest head office and IMS Cape.

4.6.3 *Shaw*

Shaw had a poor customer-orientation prior to the acquisition by Zest, according to Gary Daines, Trevor Naude and Bevan Richards. While Shaw had a good reputation with its established customers, it did not actively pursue customer satisfaction with its various customers. According to Ernst January, “Shaw were order takers”. By becoming more involved with customers through the projects department, Shaw has become more customer oriented (Shaw 2008a). According to Trevor Naude, “ Both MDs of Shaw and EnI are open to the change required in dealing with customers ”. According to Bevan Richards, Shaw has the additional production side to focus on and as a result will never be as customer oriented as Zest, which has only the service side to focus on. Richards believes however, that “ Shaw has needed to adapt to working faster to meet Zest’s fast-paced demand ”. By adapting to this, Shaw has become more aligned to meeting the Zest’s customer focus.

Shaw prior to their acquisition by Zest was not a company that aspired to being professional. What was immediately evident on arrival at the Shaw office was the professional office interior which resembled the Zest head office interior. Bevan Richards agrees that Shaw has become a lot more professional in its approach to Shaw and Zest's customers. As Richards explains, " Initially I had to review all customer quotes going out to ensure that they met the professional requirements expected by Zest to align the paperwork with Zest. Shaw has needed to adapt to working faster to meet Zest's fast-paced demands. " The professional image change to Shaw has become entrenched in a Zest Group expression. Following a customer visit to Shaw the customer commented, "Shaw has undergone a Zestoration" according to Gary Daines. Richards acknowledges the need to have Zest-minded people at the interface to deal with Zest, but believes Shaw's more casual approach will remain intact within the company and that the culture of Shaw will not mould entirely to Zest's culture. Due to the manufacturing environment at Shaw, Richards believes that Shaw's culture will not change entirely to the Zest culture.

Shaw's culture tended to be more role oriented, according to Warren Sandham, rather than entrepreneurial or customer oriented. However, Sandham feels this has changed: " The organisation is now conducting itself more professionally. There is now a stronger customer focus amongst the employees. "

4.6.4 *EnI*

EnI was a "hand in glove match" according to Gary Daines and he believes " with EnI we had our best fit in terms of culture ". This opinion is echoed by both Richard Miller at EnI, as well as by Trevor Naude in the projects management division. Richard Miller and Robert Miller, according to Gary Daines, were entrepreneurs. Richard Miller believes EnI's pre-merger success was partly due to its customer focus, while Trevor Naude feels that EnI has further improved in terms of its customer orientation since being in the Zest Group.

In the interview Richard stressed the importance of looking after the people within EnI. This was evidenced in Richard and his brother Robert's decision on Zest as a merging partner, which was governed by the requirement that EnI would further flourish as a company as well as ensure the future of its employees. As Gary Daines explains: " They have huge respect from their staff who will move heaven and earth for them."

4.7 Results pertaining to proposition 6

If HR issues are dealt with immediately following the acquisition, there is a greater chance of the complete realisation of revenue-enhancing synergies.

There was very little restructuring within each acquisition by Zest. In each instance new personnel were appointed with no changes to the roles of the existing employees. The biggest restructuring occurred at Zest itself, with the formation of the project development department headed up by Trevor Naude (Zest 2009c). As Ernst January commented: “ No changes were anticipated. This stems from our philosophy of buying businesses that are already good stand-alone businesses. ” In no instance was there an employee who had to accept a change to his or her employment contract that was unfavourable. When changes occurred to employment contracts it was always in the form of additional benefits to employees. Not one employee was made redundant in any of the Zest acquisitions.

4.7.1 *Zest*

With each acquisition, the projects division was placed under more and more pressure. As a result of the pressure in the projects division, one of the staff members resigned, according to Gary and Trevor. The mounting pressure in this department was acknowledged and resulted in the restructuring of the projects division. The projects department was split into two - proposals and projects each with their own managers and a clear hand over file. In addition, the group projects division was headed up by Trevor Naude. The group projects division as seen in the group organogram (Zest 2009c) was linked directly to each organisation within the group and had access to the projects and proposals division. No further staff turnover has resulted following the restructuring.

4.7.2 *IMS*

The only changes to the employee status at IMS were that Eugene Coetzee would now be permanently on site and the appointment of sales personnel would take place. Only one sales manager resigned after the acquisition as he felt Eugene's presence restricted his freedom.

4.7.3 *Shaw*

At Shaw Bevan Richards' role would change from General Manager to Managing Director. In supporting Bevan there were some changes to the company structure as seen in the organogram (Shaw 2008b): Paul Springorum was appointed as the new GM; Warren Sandham was brought into the financial manager position; and the engineering department was strengthened to handle the additional projects expected through Zest. There was no pre-merger staff attrition, with only one of the newly appointed engineers leaving shortly after his appointment. Gavin Pearce was moved from Zest head office to Shaw to strengthen the Shaw Projects department to better leverage off the Zest Group. The restructuring and new appointments were completed in three months.

4.7.4 *EnI*

No restructuring of staff was carried out at EnI. The appointment of an engineer as part of the succession plan was the only appointment at EnI. There was no staff attrition at EnI during or after the acquisition.

4.8 Results pertaining to proposition 7

Well-communicated integration plans will reduce employee resistance to the revenue-enhancing synergy integration.

4.8.1 *Zest*

James Blakemore in Engineering News (Holman 2008a:34) is quoted as saying:

> " Zest's strategy and philosophy with acquisitions is to allow companies which enter the group to continue to operate as autonomous entities within their own markets, and to leverage off the advantages of being in a group that

> has companies which bring additional business over and above their traditional sector. ”

This is the message that is given to each newly acquired organisation.

Zest’s post-acquisition communication with the company acquired passes through a series of stages. Following the signing of the memorandum of understanding, the senior management of the acquired company is notified according to Ernst January. Only after the due diligence is completed and money has exchanged hands is an event organized to introduce senior management of the two companies. Thereafter, senior management of the acquired company will announce to its staff, together with James Blakemore, that Zest has acquired the organisation. Zest announces the acquisition to its employees via email. Zest tries to avoid communicating to the staff prior to this point, as Gary Daines says: “ The biggest problem with communication prior to an acquisition is that things can fall apart and the deal can fall through. The danger is that expectations can be dashed and this comes with its own problems. ”

4.8.2 *IMS*

At IMS the announcement of the acquisition was made to the staff with confirmation to all that the status quo would remain. As Eugene Coetzee recalls: “ The staff were all given their letters of reappointment to their same positions with no loss of service. ” Eugene also made himself available to respond to any concerns that employees had.

It must be noted here that initially there were no plans to implement revenue-enhancing synergies with the Zest Group as IMS was initially acquired with the pending power crisis in mind. Implementation of revenue-enhancing synergies would follow later.

4.8.3 *Shaw*

At Shaw Bevan Richards announced the acquisition of Shaw by Zest. Thereafter he had to face several questions from his employees: “ I just reassured them of their status in the company. There would be no firing, no movement of staff, the leadership would remain the same and there would be no salary changes. I also informed them the move would be better as we were now with a bigger company and that they would have better working environments in the future,” recalls Bevan.

To implement the revenue-enhancing synergies, additional people were employed to new positions. The only employee to be absorbed from Zest was Gavin Pearce. According to Bevan, “Our project department was understaffed and he fitted in well.”

4.8.4 *EnI*

EnI was the only acquisition that communicated to its employees upfront before the due diligence was even carried out. The fact that the EnI employees had been well informed about the acquisition was evident of the first meeting Zest had with EnI. The EnI employees came across on a bus for a meeting with the Zest Group, and got on well with the Zest people immediately, according to Gary Daines. “ It was evident they had been well prepped and were full of energy, ” was Trevor Naude’s comment.

According to Richard Miller, “ The staff were happy about the merger following our communication with them. Our staff now gets on well with the Zest staff. ”

4.9 Summary of the results

The results chapter presented the data gathered for each proposition. The results were presented in a descriptive format with the data being extracted from the various forms of data collection required for successful triangulation. The main source of data was interviews. Quotations from the interviews were given where they strengthened the description of the results. Additional supporting data from other sources of evidence are only quoted within the descriptive text when they add depth to the descriptive narration.

5 DISCUSSION OF THE RESULTS

5.1 Introduction

The discussion chapter has been set out according to the results presented in Chapter 4 for each proposition. Where the results between the three acquisitions are different, the discussion looks at each acquisition individually. Where there is consensus between the three acquisitions, no individual discussion/analysis is given.

5.2 Discussion pertaining to proposition 1

Proposition One suggested that there is a greater realisation of synergies when a formal evaluation model is utilised to calculate the value of the synergies separately. This proposition is not supported by the evidence; within the Zest context revenue-enhancing synergies was not carried out intentionally. As Zest has a policy of not paying for what it brings to the table, it has not had a policy of determining synergistic value prior to the acquisition.

Zest is, however, clear on what the revenue-enhancing synergies are and how each acquisition fits its strategic focus to provide turnkey solutions. While the true revenue-enhancing synergies of IMS became evident post acquisition, both Shaw and EnI were clearly understood in terms of the synergies to revenue enhancement they could offer the group without actual values being attached to the revenue-enhancing synergies.

What is evident is the thoroughness of the due diligence in determining the stand-alone value that guides the price Zest is prepared to pay for the acquisition. This in itself ensured that Zest was able to extract value through revenue-enhancing synergies from its acquisitions by ensuring that it did not pay too much for the acquisition. Sound valuation of a company is supported by Eccles et al. (1999) who cites paying too much as one of the reasons for acquisition failure. While this may be beyond the scope of this study, this point is still pertinent as the success of the revenue-enhancing synergy realisation is not placed under undue stress as a result of paying too much.

While this proposition has been supported by several authors (Kode et al. 2003; Bruner 2004), revenue-enhancing synergies have been cited by Eccles et al. (1999) as often being ignored or heavily discounted during the due diligence stage due to the uncertainty of additional future-revenue projections. This was clearly the case with Zest, where the synergies were predominantly revenue enhancing leveraged from the Zest national footprint and sales and marketing know-how.

Moving forward, Zest has its business development unit responsible for maximising revenue-enhancing synergies within the group. What is critical to realising the Zest synergies is the monitoring of the benefits to the group as a whole, with constant questions being asked on how to maximise these benefits.

With each acquisition, Zest did not determine the value of the revenue-enhancing synergies. But in each case it made a success of the acquisition. It would appear that Eccles et al. (1999) was correct in arguing that the wiser companies do not include revenue-enhancing synergies when calculating synergy values for an acquisition.

There was no evidence within the Zest context to support the proposition that synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergies separately.

5.3 Discussion pertaining to proposition 2

The second proposition required the due diligence practitioner to test all assumptions relating to the financial model used in determining the value of the revenue-enhancing synergy.

Zest did not practise the financial astuteness called for by Cullinan et al. (2004) in determining the synergy values. There is, however, sufficient evidence to show that it considered the strategic logic of both the Shaw and EnI acquisitions, with a later understanding of the IMS potential for revenue-enhancing synergies.

It would appear that Zest did not follow assessment of its targets as Lovello et al. (2007) and Schweiger et al. (1993) advise. There was certainly confidence in Zest's ability to achieve revenue-enhancing synergies. Consideration was given to the resources Zest would require to achieve the revenue enhancing-synergies. In addition, only rough estimations of the costs and time to implement revenue-enhancing synergies were carried out.

There was evidence to suggest that the due diligence practitioners, as recommended by Bruner (2004), were more knowledge focused and made assessments about the adequacy of accounting procedures and acceptability of audited results. The financials of each acquisition were scrutinised during the due diligence process and inadequacies highlighted. While the valuation of a target acquisition was beyond the scope of this study, it became evident that the correct valuation of a target is critical in ensuring unrealistic expectations are not placed on the revenue-enhancing synergies as a result of paying too much for the acquisition. From the valuation perspective of each target, the evidence showed that Zest tested assumptions related to the financial models used to determine the target price.

While Zest did not test all assumptions in determining the value of the revenue-enhancing synergies, it understood the strategic fit of each acquisition. This understanding enabled Zest to make reliable decisions about each acquisition's potential for the implementation of revenue-enhancing synergies without allocating actual values to these synergies.

The Zest context, therefore, does not support the proposition to test all assumptions related to the financial model used to value the revenue enhancing synergies.

5.4 Discussion pertaining to proposition 3

Proposition three suggested that clear implementation plans would improve the probability of fully realising the expected revenue-enhancing synergies.

Zest has a thorough implementation plan that is designed to maximise the revenue-enhancing synergies within the group. The implementation plan was not in place during the earlier acquisition of IMS but was continually refined as Zest continued to acquire companies. Zest now has a generic approach that is applied to all the companies within the group.

Common to all the acquisitions was the attention to infrastructural issues, which were addressed first. There was an immediate upgrade of the IT systems at the companies where upgrading was necessary. The due diligence reports assess the immediate constraints such as employment of new personnel. The identified constraints were addressed without delay. Upgrading of offices at both IMS and Shaw was carried out to be in alignment with the professional look as portrayed by the Zest Group.

There is a strong drive at the interface between the companies within the group to implement the increased revenue-enhancing synergies. Implementing the revenue-enhancing synergies is covered by a four pronged approach.

(1) The Zest marketing strength supports the entire group;
(2) Exco meetings are held at each company within the group;
(3) The strong customer relationships each company has within the group is leveraged by the group; and
(4) The projects division ensures that the group benefit is maximised on each project.

When IMS was acquired, the main focus was on the demand expected from the power crisis. While it appears that Zest did not meet the proposition proposed by Bruner (2004) to have well laid-out plans to implement the synergies when it first acquired IMS, it subsequently developed plans that have proven to be highly successful for the group. Even though IMS was acquired in 2006, the implementation plans developed by Zest are further increasing the IMS market share. These implementation plans do support what Bruner (2004) proposed, even though the improved benefits were not immediate.

There is strong evidence from all the group's acquisitions to support the proposition that well laid-out plans will increase the probability of successfully realising increased revenue-enhancing synergies.

5.5 Discussion pertaining to proposition 4

Proposition four suggested that implantation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies.

It is extremely difficult to estimate actual values of revenue-enhancing synergies during the due diligence. The proposition requiring a thorough valuation of the synergy did not have any evidence to support this proposition within the Zest acquisitions. As there is no value attached to the revenue-enhancing synergies, it would be difficult to predict when the revenue-enhancing synergies were finally realised.

Despite the lack of a time frame for meeting requirements, evidence showed that Zest addressed the implementation requirements methodically. In each acquisition, infrastructural changes needed were carried out in the first year. The only exception to this is that the increased production-capacity planned through the use of more automated machinery highlighted during the Shaw due diligence are still pending. The Zest marketing strength was applied to each acquisition with immediate effect as can be seen in the many articles seen in engineering magazines following each acquisition. The exco meetings and project-development meetings were started in 2008, so only EnI was immediately exposed to the full revenue-enhancing synergy strategy developed by Zest. However, the evidence does not suggest that EnI was more successful in realising revenue-enhancing synergies as all three acquisitions have experienced growth on a yearly basis that is attributable to realising revenue-enhancing synergies.

What was clearly evident was Zest personnel's drive to pursue the implementation of revenue-enhancing synergy realisation. So while there was no time frame, realising the synergies has been pursued as evidenced throughout the organisation from the top management down.

So, while De Pamphilis (2001) stresses the importance of understanding the time period in which integration will be implemented, Zest has shown that revenue-enhancing synergies do not have to be realised within rigid time frames but rather through people driven to pursue the potential synergies. The Zest Group has followed the principle of minimum intervention as advocated by Schweizer (1991), which suggests only the high leverage areas for maximising synergy integration be utilised to ensure that the pace of change is swift. By focusing its energy at the interface between the companies, the Zest implementation strategy (marketing strength, leveraging customer relationships, exco meetings, strong project development department) has yielded revenue-enhancing realisation.

There is no evidence within the Zest Group acquisitions to support the proposition that implementation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies.

5.6 Discussion pertaining to proposition 5

Proposition five suggested that when integration interaction is high then integrating cultural differences would be essential.

Because Zest strives for cultural alignment across the entire organisation, it requires that each acquisition:

- Adopts a professional approach in dealing with each other within the Zest Group as well as with customers;
- Sees that paper work is up to date and accurate; and
- Responds speedily to customer demands.

IMS has achieved the lowest cultural alignment of the three acquisitions. As suggested by Larson and Finkelstein (1999), the greater the management style similarities the greater the degree of organisational integration. There is a large difference between the Zest head office and IMS Cape's management styles. This appears to have been largely overcome with the appointment of Denver at the Zest head office, who ensures the cultural alignment at the interface is satisfactorily achieved.

As the researcher has worked in a manufacturing environment, he is familiar with the role-oriented culture that exists within this type of environment. There are difficulties in achieving customer focus where internal departments are more focused on serving each other as opposed to a service organisation where a large portion of the work force have some form of contact with the end customer, who becomes their primary focus. While Shaw is faced with this environment, evidence shows that it has become more customer oriented. While Shaw has achieved a moderate alignment with the Zest culture, it has achieved the three cultural-integration requirements at the interface. Shaw has developed its own internal skills for meeting these requirements.

EnI did not have to undergo cultural alignment. As the two cultures of Zest and EnI were very similar, EnI proved to be the easiest acquisition in terms of getting the people from both organisations working with each other.

Larson and Finkelstein (1999) suggest that when very little interaction is required between the organisations, cultural differences may not pose a serious problem to the integration implementation. This appears to be supported by the case of IMS, which has a very low interaction with Zest largely as a result of IMS's geographic separation. Both Shaw and EnI have a higher level of interaction with Zest and both have achieved cultures aligned with Zest's.

The evidence uncovered in the Zest context supports the proposition that the greater the interaction the greater the need for cultural alignment.

5.7 Discussion pertaining to proposition 6

Proposition six suggested that HR issues should be dealt with immediately following an acquisition as this would create a greater chance of completely realising the revenue enhancing synergies.

Owing to James Blakemore's belief that only good companies should be acquired, Zest has not imposed itself on the acquired companies. With each acquisition, the acquired organisations have retained their pre-acquisition identity. As a result there was minimal dilution, if any, with the Zest head office. This approach taken by Zest with all their acquisitions has resulted in the HR issues not being as prevalent as may have been the case if any of the acquisitions had been completely absorbed into Zest.

Restricting loss of talent across the acquisitions as recommended by Howitz et al. (2002) and Bruner (2004) was largely successful, with only IMS and Zest realising staff turnover. At IMS the staff member who resigned moved to a competitor company, but it was never established what the real motive for this move was. At Zest the loss of a staff member was largely due to the work-overload stress in the projects division at Zest. The work-overload stress experienced, however, was not related to the negative staff reactions to mergers, such as high stress levels cited by Schweiger et al (1993) and Fairfield-Sonn (2002). The stress was related to work-overload rather than the anxiety the employee may have felt regarding the uncertainty of the merger.

Owing to the Zest acquisitions being governed by the Zest strategy of only acquiring good companies, there was very little change at each acquisition. There were no job losses. The only changes in status of employees were promotional, as was the case with Eugene Coetzee and Bevan Richards. The HR issues faced in each acquisition were, therefore, minimal and were dealt with within three months of each acquisition.

While the HR changes were minimal, the evidence supports the proposition that the HR issues were dealt with immediately following the acquisition. The overall low staff attrition supports this conclusion, which has given Zest a greater chance to realise revenue-enhancing synergies within the group.

5.8 Discussion pertaining to proposition 7

Proposition seven suggested that if integration plans were well communicated, then employee resistance would be minimal to the revenue-enhancing synergy integration.

The Zest announcements were mostly post due diligence, following the signing of the memorandum of understanding. Only EnI employees were communicated to earlier in the process due to the close relationships the EnI owners had with their staff. There was no adverse news to be communicated to the staff with any of the acquisitions – no retrenchments, no drop in salary, no lowering of status within the company, or loss of company perks. There were positives to the announcements such as improved benefits and, in a few cases, promotion within the organisation. This would go a long way to minimising any resistance from staff with the implementation of the integration plans.

It was evident with EnI that the open communication it had with its staff even before the due diligence was conducted went a long way in allaying staff fears once the acquisition was finalised. This was evidenced in EnI staff being comfortable with meeting the Zest staff right from day one of the merger.

Each acquisition was communicated to all employees openly, immediately following the conclusion of the acquisition deals. The Zest acquisitions have, therefore, supported the advice of Lotz and Donald (2006) to communicate with employees openly to address employees' personal concerns in order to avoid adverse reactions from employees during the integration stage.

The evidence from the case study therefore supports the proposition that well-communicated integration plans will reduce employee resistance to the integration.

5.9 Further discussion on leadership

During the data collection phase it became apparent that leadership plays a pivotal role within the Zest context to realising revenue-enhancing synergies. Leadership as a key success factor had not been apparent within the literature review search at the start of the study. The compelling evidence at Zest, however, has led to a new potential proposition:

The leadership within the organisation must ensure that the interaction between the companies following the merger/acquisition is optimised to ensure revenue-enhancing synergy realisation.

5.9.1 *Supporting evidence*

An open ended question was posed to each interviewee regarding what he or she thought was key to achieving revenue-enhancing synergy realisation. Many of the answers were related to the seven propositions already posed. What did stand out was the view of several interviewees that the leadership and a good team were essential to successful synergy implementation.

According to Ernst January:

> “ The people are the key to success. Ultimately change is required and you need to go tactfully about it by nudging and influencing and you need a good team to do this. Zest does not have a big brother approach and only changes what needs to be changed. James Blakemore is good at this approach in rallying the guys to adapt themselves. ”

As expressed by Gary Daines, “ ... lead by example. We do not expect anyone in this business to do anything that we are not prepared to do ourselves ”. This view was supported by Trevor Naude: “ The culture at Zest is very strongly customer focused. This is evident from the leadership in Zest where Louis Meiring, the Zest MD, has his cell number on the company catalogues for after-hour emergency assistance, thereby leading by example.”

James Blakemore, following his Ernst and Young entrepreneur of the year award, described his management style as hands on and open door. Looking at the exco meetings of the group, the names of at least one Zest director is listed in the attendees of each meeting. The exco meetings are crucial to ensuring the entire group is aware of what the opportunities are for revenue-enhancing synergies within the group.

The Senior management uses every opportunity at social gatherings according to Gary Daines: " The visibility of the Zest senior management at socials is vital to work on the culture so that everyone understands who we are. They are always amongst the employees, communicating and mentoring the staff. " Trevor Naude also believes that through strong mentoring from both Gary Daines and James Blakemore he personally has been able to improve his contribution to the group.

The projects team structure has been given direct access to each organisation, ensuring they are seen as high-level drivers of the group revenue-enhancing synergy realisation. By elevating the projects team to a senior level, they have been able to successfully drive home revenue enhancing maximisation within each project.

5.9.2 *Discussion*

Evidence of the leadership involvement in driving the revenue enhancing synergies was heard throughout the interviews. It was clear from all interviewees that the leadership was instrumental in driving revenue-enhancing synergies.

There are no agency costs in the Zest Group where 70% of the equity is held by the management of the group. This may potentially explain why the leadership and management within the group drive home the revenue-enhancing synergies. There is a clear purpose where no egos are allowed to stand in the way of maximising the group potential.

The evidence found in the Zest Group case supports the proposition that the leadership within the acquiring organisation must ensure the interaction between the companies is optimised to ensure revenue-enhancing synergy realisation.

5.10 Conclusion

Each proposition was separately discussed based on the results of study. The context of the Zest acquisitions was also taken into consideration. The analysis showed strong support for four of the propositions:

(1) The need for thorough implementation plans;
(2) The need to align cultural differences in line with the degree of integration;
(3) Dealing with HR issues as soon as possible; and
(4) The need for open communication with employees regarding the integration of the companies.

The role of leadership in ensuring realisation of revenue-enhancing synergies was not one of the original propositions but was found to be crucial in the course of the case study to successful revenue-enhancing synergy realisation.

There was no evidence to support the propositions requiring that synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately or that the due diligence should test all assumptions related to the financial model used to determine the synergy value. While there was no evidence to support the proposition that fixed time frames to achieving synergies should be established, the drive by all employees at the integration level ensured that revenue-enhancing synergies were realised within the first year of the Shaw and EnI acquisitions.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter looks at the propositions that were found to be supported by sufficient evidence from the case study to support the realisation of revenue-enhancing synergies. Where the propositions were found to have no supporting evidence, the reasons are given within the context of this case. Recommendations are then given to the stakeholders that were identified in the “Significance of the research” section, based on those propositions found to be crucial to the realisation of revenue-enhancing synergies. Thereafter, recommendations are made for suggested future research topics that were realised by the researcher during the process of producing this research report.

6.2 Conclusions of the study

6.2.1 *Key success requirements for realising revenue-enhancing synergies*

There is strong evidence between all the Zest Group acquisitions to support the proposition that well laid out plans will increase the probability of successfully realising increased market share synergies. While Zest did not have the plans prior to its first acquisition, its implementation strategy developed over time and has benefited all their acquisitions in realising revenue-enhancing synergies.

The evidence in this research report supports the proposition that the greater the interaction, the greater the need for cultural alignment. As Larson and Finkelstein (1999) suggested, when very little interaction is required between the organisations, cultural differences may not pose a serious problem to the integration implementation. This appears to be supported by IMS with a very low interaction with Zest largely due to the geographic separation. Both Shaw and EnI have a higher level of interaction with Zest and both have achieved more aligned cultures. It must be noted, however, that the interaction between Zest and both Shaw and EnI is still minimal compared to an acquisition where the acquired company loses its identity while being absorbed into the acquiring company.

Each acquisition was communicated to all employees openly immediately following the conclusion of the acquisition deals. The Zest acquisitions have therefore supported the advice of Lotz and Donald (2006) to communicate with employees openly to address employees' personal concerns in order to avoid adverse reactions from employees during the integration stage.

While the HR changes were minimal, the evidence suggests that the HR issues were dealt with immediately following each acquisition. The overall low staff attrition supports this conclusion and has given Zest a greater chance in the realisation of revenue-enhancing synergies within the group. If HR issues are dealt with immediately following the acquisition, there is a greater chance of complete realisation of revenue-enhancing synergies.

The Zest Group support the proposition that the leadership within the acquiring organisation must ensure the interaction between the companies is optimised to ensure revenue-enhancing synergy realisation. The Zest Group has realised strong revenue-enhancing synergies with extensive top management involvement to ensure the strategy to realising revenue-enhancing synergies is driven throughout the organisation.

6.2.2 *Propositions found not to ensure that revenue-enhancing synergies are realised.*

With each acquisition Zest had not determined the value of the revenue enhancing synergies separately. But in each case it made a success of the acquisition. It would appear that Eccles et al.(1999) was correct in arguing that the wiser companies do not include revenue-enhancing synergies when calculating synergy values for an acquisition. There was no evidence to support the proposition that revenue-enhancing synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately.

Zest did not test all assumptions in determining the value of the revenue-enhancing synergies at the due diligence stage as it had not determined the value of the synergies during the due diligence to begin with. Zest did, however, understand the strategic fit of each acquisition. The Zest acquisition process, therefore, does not support the proposition to test all assumptions related to the financial model used to value the revenue-enhancing synergies understanding. The strategic fit understanding of each acquisition enabled Zest to make reliable decisions about each acquisition's potential for revenue-enhancing synergies without allocating actual values to these synergies. This was possible due to Zest's thorough understanding of the electrical engineering project environment in South Africa as well as in Sub-Saharan Africa.

There is no evidence within the Zest Group acquisitions to support the proposition that implementation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies. As there is no value attached to these synergies during the due diligence stage, it would be difficult to predict when the increased market share synergy was finally realised. While no time period was specified, the evidence uncovered during the research showed a strong drive within the company to realise the revenue-enhancing synergies.

6.1 Recommendations

As revenue-enhancing synergies are difficult to estimate it is not recommended that due diligence practitioners consume time focusing on estimating the value of any expected revenue-enhancing synergies. It is recommended instead that due diligence practitioners have a thorough understanding of the strategic fit and market environment in which the companies operate, as well as a sound implementation strategy for realising revenue-enhancing synergies.

Management in both the acquired and acquiring companies will have a vital role in driving the implementation strategy between the organisations. By ensuring that management processes are in place and are driven on an ongoing basis, revenue-enhancing synergies will be better realised. Management must also play a role in ensuring the required level of cultural integration is achieved between the organisations.

Executives should ensure early, open and honest communication to employees on both sides of the acquisitions. Executives should also be aware of their leadership influence required to set the organisation successfully down the revenue-enhancing synergy-realisation path. If executives create an environment conducive to co-operation and demonstrate their desire for the success of the revenue-enhancing synergy realisation, the organisation is driven from top management down in the realisation process. While no time frame need be specified, executives should ensure they have people who will be driven to achieve the revenue-enhancing synergies.

6.2 Suggestions for further research

This research report focused on challenges faced in realising revenue enhancing synergies. As each synergy category would have its own challenges to implementation, a comparison of the different challenges faced with realising operational, financial, tax, and enhanced capabilities synergies would be of further assistance to interested parties in realising expected synergies.

Where an acquisition is entirely absorbed into the acquiring company, different challenges would be faced in realising synergies, a comparison of challenges could be drawn up to compare the different challenges faced with varying degrees of acquisition integration.

Zest had a predominantly customer oriented culture. It would add to the body of knowledge if a researcher were to investigate the different integration approaches required to successfully align the different cultural orientations of organisations.

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APPENDIX A

INTERVIEW QUESTIONS

Proposition 1 Revenue-enhancing synergies have a greater realisation outcome when a formal evaluation model has been utilised to calculate the value of the synergy separately from the target company valuation.	**<u>Due diligence assessor</u>** What value creation did you expect from the revenue enhancing synergies? How explicitly were the values of the revenue enhancing synergies stated? Ask for elaboration on the financial model used if applicable and if not given in the previous question. **<u>Senior Management</u>** What synergy expectations were there going into the merger? What measures do you have in place to determine actual revenue enhancing synergy realisation? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation. Improvement in sales volumes of each company

Proposition 2 The due diligence should test all assumptions related to the financial model used to determine the value of the revenue-enhancing synergy.	**<u>Due diligence assessor</u>** Tell me about the assumptions made in determining expected revenue enhancing synergies? What implementation resources were considered? **<u>Senior Management</u>** What resources were necessary to align the revenue enhancing synergies? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation. Improvement in sales volumes of each company
Proposition 3 Clear implementation plans will improve the probability of fully realising the revenue-enhancing synergy.	**<u>Due diligence assessor</u>** Please elaborate on any implementation plans considered to realising revenue enhancing synergies? **<u>Senior Management</u>** What considerations were given to implementation plans specific to achieving revenue enhancing synergies? **<u>Project Managers</u>** How do you go about ensuring the groups resources are fully utilised in each project? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation.

Proposition 4 Implementation plans should incorporate a time period to achieve full integration of the revenue-enhancing synergies.	**<u>Due diligence assessor</u>** What time frame did you anticipated to achieve revenue enhancing synergy realisation? **<u>Senior Management</u>** Elaborate on the time frame to implementing the revenue enhancing synergies set out? **<u>Project Managers</u>** How soon were you incorporating the newly acquired group capabilities into your management of the various projects you were involved with? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation.
Proposition 5 Integrating cultural differences is essential when integration interaction is high.	**<u>Due diligence assessor</u>** How did you see the cultures of the two companies? **<u>Senior Management</u>** How were company cultures handled? **<u>Project Managers</u>** How important is it to consider company cultures when working with the different companies on a project? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation. Policy statements (e.g. mission, strategy, objective statements) Direct Observations

Proposition 6 If HR issues are dealt with immediately following the acquisition, there is a greater chance of complete realisation of revenue-enhancing synergies.	**<u>Due diligence assessor</u>** What restructuring of staff did you anticipate? **<u>Senior Management</u>** Was there any restructuring of staff carried out? How was this handled? **<u>Project Managers</u>** At the start of the merger, how did you see your role changing? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation. Organograms and any changes Employee turnover pre and post merger
Proposition 7 Well-communicated integration plans will reduce employee resistance to the revenue-enhancing synergy integration.	**<u>Due diligence assessor</u>** What were the plans for communicating the merger to the staff? **<u>Senior Management</u>** How was the merger communicated with the staff? What do you think is key in achieving revenue enhancing synergy realisation? **<u>Alternate sources of evidence</u>** Media articles Due diligence records Any documents regarding revenue enhancing synergy implementation/realisation.

APPENDIX B

Chronology of events

1980's	Zest Electric Motors founded.
2000	James Blakemore recognises the need to reduce reliance on imports.
2004	BEE deal concluded with private equity group Medu-Capital.
2005	The Zest Group acquired controlling interest in Industrial Cable suppliers.
2006	Acquired IMS Engineering
2007	Acquired Shaw Controls
2008	Acquired EnI