Perceptions of successful mergers and acquisitions in the South African construction industry

A research proposal submitted by

Christian Jacobus Boshoff

Student number: 333667

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ABSTRACT

Most research studies on the success of mergers and acquisitions (M&A) have focused on the financial measures of success. The purpose of this research was to identify the key success factors of a merger and acquisition strategy given by the executives of construction companies and financial advisors who have dealt with mergers and acquisitions in South Africa. These key factors provide the construction executives with a set of recommendations which can be used as guidelines during merger and acquisition deals.

Several sources of data collection were used as evidence for the research. A review of the available literature revealed ten key success factors, and these factors were used as propositions for the remainder of the research. A questionnaire containing open-ended questions, which were administered during face-to-face interviews with the various respondents were used. A content analysis was carried out on the data collected.

The most significant factors identified in the study were sound implementation plans, immediate addressing of the softer key issues such as cultural differences, managing of management as well as open communication with all the relevant parties involved. These factors are essential to realising the long-term success rate of a merger or acquisition. Strong leadership emerged as the crucial factor in ensuring that these key success elements were driven to realisation.

DECLARATION

I, Christian Jacobus Boshoff, 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 Witwatersrand, Johannesburg. It has not been submitted before any degree or examination in this or any other University.

Christian Jacobus Boshoff

Signed at: Wits Business School

March 2011

DEDICATION

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

To my Dad, thank you for your love and support and allowing me to stay at home during this period to make the studies a lot more tolerable.

To my Mom, thank you for your love and encouragement. Thank you for permitting me to blow-off steam when things became difficult and for keeping me on the right track.

To Arno and Mitzi, thank you for supporting me and believing in me. A person cannot ask for a better brother and sister.

To my new and eternal friends that I have met during this MBA journey of ours. Thank you for all the help and advice and for always being there. I will miss our times together, but you will each have a special place in my heart.

Finally, and most importantly, none of this could have been possible without the blessings of my Lord and savoir, Jesus Christ. He has made me the person I am today, and without Him I know that I am worth nothing. **AMEN!**

DECLARATION

To Mr. Mark Peters, my supervisor and mentor, thank you for your time and ‘immer’ friendliness. You have supported me and guided me right from the start of this journey. You made me realise the true long-term benefits of the learning process.

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1 INTRODUCTION

1.1 PURPOSE OF THE STUDY

The purpose of this research was to identify the perceptions of successful mergers and acquisitions in the construction industry. There are general business principles that can be applied to any industry, but there are always differences that can and will be found within companies that specialise in doing more entrepreneurial business transactions i.e. construction companies. The focus of this research was to identify the key factors as perceived by the financial advisors and construction managers who had taken part in mergers and acquisitions. Merger and Acquisition strategies are significant in order to bring success to a mergers or acquisitions deal.

1.2 CONTEXT OF THE STUDY

Cartwright and Schoenberg (2006) explain that mergers and acquisitions refer to the various elements of corporate strategy that take place such as the financing within corporations and the various dealings of buying and selling of different and / or similar companies. These transactions will make it possible to help with finance, or to grow an organisation within a specific industry without the need to create a separate organisation.

Although they are often used as synonyms, the terms merger and acquisition (M&A) mean slightly different things. Zollo and Singh (2004) stated that when a company takes over another company and therefore become the new owner, the transaction is called an acquisition. Zollo and Singh (2004) go on to elaborate that when the transaction is looked at from a legal point, the target company will cease to exist, the buyer will then "swallow" the business and the buyer's stock will continue to be traded. When a merger is imminent the two firms that are part of the transaction will be in agreement to carry on as a single new entity (Bastien, 2006).

Organisations make use of mergers and acquisitions for a variety of reasons. One of the more important reasons for mergers and acquisitions is the potential benefit that can add to the stockholders of both companies (Zollo and Singh, 2004). Synergy is often used as the primary reason for mergers. The process of synergy occurs after a successful merger has taken place (Zollo and Singh, 2004). Once the organisations have merged they will then be run more efficiently (with regards to cost efficiency) and / or more effectively (i.e. more suitable allocation of scarce resources given the factors of environmental constraints) together than when they were apart (Palmer, Tanner, Detrick and Wagner, 2007).

A couple of other reasons for organisations to take part in mergers or acquisitions include improving or maintaining a competitive advantage in a particular industry, to enter new markets or obtain new products quicker, to improve their current financial position, or to avoid a takeover (Lubatkin, 2006). Joint ventures, strategic alliances, mergers, and acquisitions are rather common practices in most industries as companies make every effort to achieve greater efficiency, growth, and global reach. Even within the isolated world of construction, the industry finds itself in a period of intense consolidation (Palmer et al., 2007). According to Palmer et al. (2007) the construction industry is being transformed from thousands of small, privately owned entrepreneurial firms to an industry made up of larger, structured, professionally run companies. Within the smaller to medium-size firms mergers have been somewhat popular and the industry has seen a progression of construction companies that are busy expanding into newer markets to gain greater market share, diversify their portfolios, and balance losses (Palmer et al., 2007).

The current state of construction company mergers in South Africa will have a positive effect on the overall construction industry with stronger up-and-coming organisations competing for their proverbial “piece of the pie”. Zollo and Singh (2004) researched the fact that developers are learning from past construction trends in other markets where the organisations that survived and achieved success were those that were capable of building stronger differentiated capabilities and diversified more efficiently than their competitors to stabilise sources of revenues. Companies are also learning from similar construction downturns such as those in Singapore and Hong Kong, which experienced strong boom obliterations in the past. Palmer et al. (2007) have realised that with most smaller construction firms not having the cash available, debtors that are incapable of making payments and banks restricting lending, the primary reason for a merger to take place is for organisations to combine their resources to enable them to survive any downturn.

The sample results from a survey conducted on all European M&A transactions which took place from 1986 to 2006, with transaction values ranging from 13 to 290 million Euros (i.e., the so-called medium-sized firms) indicated that almost 69% of these mergers and acquisitions failed, mostly due to basics such as a lack of deal preparation, ineffective communication between the various parties involved, unclear strategies or poor execution of the deals themselves (Morresi and Pezzi, 2009). Of those companies that did merge successfully only about 28% have achieved increased profitability. The financial value of these types of M&As which occur within the research of Kale et al. (2009) are explained by hypothesising that if construction companies are planning to merge, they would need to ensure that their organisations are on sound ground. They are also advised to research their prospective partners carefully before they decide that a merger with a specific firm is the best solution for them. Successful mergers can give leading South African players the crucial size and a competitive edge that they need on the local as well as international scene.

1.3 PROBLEM STATEMENT

Main problem

The purpose of this research was to identify the key factors of a successful mergers and acquisitions strategy that South African listed construction firms use to gain a competitive position.

1.4 SIGNIFICANCE OF THE STUDY

The study has sought to fill a gap in that the number of studies in mergers and acquisitions within the construction industry is limited as opposed to other areas such as banking and telecommunications. However, it is clear that the drivers of merger and acquisition activities are different for each particular firm, whether these firms are in the same industry or in different industries (Cartwright and Schoenberg 2006). It has also been realised that international construction markets are very close to consolidate and to become one enormous international market (Palmer et al., 2007).

The study has set out to provide guidance to professionals working within the construction industry who wish to become aware of this strategy process and learn to compete for ventures that once pertained only to firms in other geographical areas.

Finally, this research has built a set of recommendations which will help construction professionals understand the key factors of successful mergers and acquisitions.

1.5 DELIMITATIONS OF THE STUDY

- Although literature incorporating various industries is referred to in this paper, this study is limited to the key factors of successful mergers and acquisitions in a number of listed South African construction companies.

- It will not be an exhaustive exploration of all the merger and acquisition practices which are used by organisations. An attempt will be made to understand and identify key factors of successful mergers and acquisitions and whether these factors apply to South African companies.

- During the research, financial analysis and valuation models will not be used. This research is purely focused on the perceptions of the financial advisors and construction managers who have taken part in successful mergers and acquisitions and not on the findings or calculations of any financial data.

1.6 DEFINITION OF TERMS

- **Merger:** Mergers take place when two organisations join their operational functions, creating in effect, a third organisation (Bastien, 2006).

- **Acquisition:** An acquisition is a transaction that takes place when one organisation buys, and controls another organisation (Zollo and Singh, 2004).

- **Book value:** The value of a firms' assets indicated in the balance sheet without accounting for appreciation / depreciation (Reilly and Brown, 2005).

- **Corporate finance:** Corporate finance incorporates all aspects of the interrelation between investors and firms: the evaluation of investments, the spreading of risk, and the control of agency problems as well as the financing of investments (Lubatkin, 2006).

- **Corporate strategy:** A corporate strategy refers to the overall strategy of the firm that wishes to diversify its business practices into other areas of interest. It deals with the questions of which businesses companies should invest in, and how can synergy be created by being part of these businesses and / or how can it add to the competitive advantage of the overall firm (Lubatkin, 2006).

- **Environmental constraints:** Environmental constraints are those mixtures of external and physical circumstances that affect and direct the growth, development, and survival of an organisation (Palmer et al., 2007).

- **Globalisation:** Globalisation is a network of connections of organisations and people that are within local, geographic and cultural borders and limitations. These international networks are causing shrinkage within the business world where local differences and national borders are being transformed into global identities (Bastien, 2006).

- **Joint ventures:** A joint venture is an alliance created between two or more organisations to participate together in financially viable activities (Cartwright and Schoenberg, 2006).

- **Price Earnings Ratio:** Measures how much investors are willing to pay per rand of current earnings (Firer, Ross, Westerfield and Jordan, 2008).

- **Strategic alliances:** It is a relationship between two or more firms to chase mutual goals or to meet important organisational requirements while still remaining independent organisations (Zollo and Singh, 2004).

- **Tax shields:** A tax shield is a decrease in income taxes due to the result of accepting a deduction from taxable income (Kale et al., 2009).

- **Revenue sources:** The various types of income that organisations receive from their normal business activities. The revenue is usually obtained from the sale of goods and services to customers (Kale et al., 2009).

1.7 ASSUMPTIONS

The study makes the following assumptions:

- There are certain key factors that contribute to the success of mergers and acquisitions that organisations should focus on.

- South African construction companies and financial advisors have different opinions about successful mergers and acquisitions.

- Organisations within South Africa are aware of national as well as international companies that are making use of globalisation strategies through mergers and acquisitions to grow their organisations.

2 LITERATURE REVIEW

2.1 PURPOSE OF THE LITERATURE REVIEW

Marshall and Rossman (2006) explained that a literature review consists of a thoughtful and insightful discussion based on related studies that will build a logical framework. This framework will be used by the researcher to conduct further studies and to confirm any facts which might be found. Based on the research conducted by the authors they have realised that there are four primary reasons for conducting a literature review.

The first function of the literature review is to demonstrate the essential statement or theory behind the research questions. The goal is to identify the common threads or statements that have been found in the various readings. As soon as these common threads have been identified a greater understanding of the concepts or problems can be achieved. The second function is to indicate that the researcher has found certain gaps within older related research and to stipulate that his or her study will try to fill those necessary gaps. Finally, ‘the literature review refines and redefines the research questions by embedding those questions in larger empirical traditions’ (Marshall and Rossman 2006, p43).

2.2 INTRODUCTION

The analysis of this literature review is on the writings of authors who had published on the subject of merger and acquisition strategies. The size of the population is limited to thirty four authors in total. The aim of the population size was to use at least seventeen authors for the research question.

Once the literature was gathered, it was reorganised and divided into three broad categories that were in line with the main research question. Further to this division more subdivisions were made to clarify each category.

2.3 GLOBALISATION AS A DRIVING FORCE BEHIND MERGERS AND ACQUISITIONS

Greenaway, Gullstrand and Kneller (2008) highlight the fact that globalisation through mergers and acquisitions offer organisations various opportunities and threats. Some of the these opportunities and threats are explained as follows: Organisations can gain access to bigger international markets thus greater business opportunities will be available to them, and M&As can expose firms to better practiced management techniques and technologies which will be available to these companies when the deals take place. The negative effects or threats of M&A's are that companies that make use of these activities are exposed to an even greater competitive environment and thus the risks involved will be even bigger than just the normal business risks that the domestic companies face (Greenaway et al., 2008).

The literature indicates that the impacts of these transactions differ from industry to industry and is best explained under the following main points:

1. How does deregulation effect world markets?
2. How is growth taking place within multinational enterprises?
3. Risk analysis (More specifically, country risk analysis).

2.3.1 How does deregulation effect world markets?

Ovtchinnikov (2009) states that economists regularly agree on the fact that deregulation can increase the profitability of some organisations within certain industries, and on the other hand deregulation can also have a zero effect or cause a decrease in profitability in organisations within other industries. Deregulation in the world's capital markets is a major factor that must not be overlooked when the numbers and sizes of merger and acquisition transactions are being analysed on a day to day basis.

Ovtchinnikov (2009) stipulates that one of the main reasons for the increase in organisational profitability is that regulation can cause inefficiencies and the result of this can lead to higher operational costs for firms. Once the regulatory barriers have been removed via deregulations, organisations can increase profitability through the removal of productive inefficiencies.

On the other hand Ovtchinnikov (2009) also states that deregulation can decrease profitability. One reason for this is that entry and price regulations are used to insulate firms within various industries from market competition, and therefore abnormal profits within these industries are acceptable. In this case deregulation opens up the industry to competition and therefore forces abnormal profits that were previously made by organisations downwards to zero.

Becker-Blease, Goldberg and Kaen (2008) take the concept one step further and explain that deregulation is used by industrialised countries as well as by some developing countries. Deregulation, however, has both positive as well as negative repercussions. For example, one of the more positive impacts of deregulation is the free flow of capital throughout the world in the pursuit of greater financial efficiencies which in return will lead to higher capital gains. On the other end, Becker-Blease et al. (2008) focus on the dangers of deregulation and explain that if a crash of one of the larger securities exchanges, such as the New York stock exchange or, London stock exchange were to happen that it would have a negative financial impact on the world's financial systems.

2.3.2 The growth in multinational enterprises

Within the research conducted by Bouquet, Morrison and Birkinshaw (2009), they stipulate that deregulation is the cause for the creation of genuine multinational enterprises (MNE). They compared these enterprises to national enterprises with multinational operations and identified that one of the reasons for the creation of MNE's are the increasing restrictions placed on the physical movement of products and services.

Bouquet et al. (2008) explain that in order for a MNE to achieve competitive success in the global marketplace it would have to understand the meaning of differing competitive dynamics in complex multicultural settings. Once the organisation as a whole has understood this concept and has incorporated it into the organisation's strategic plan it would then be to the organisations advantage to invest in the country of choice and to acquiring various production facilities and distribution channels. The organisation will then be able to become a MNE as it will have a substantial amount of its assets within other international borders.

Spencer (2008) realised that the growth of the multinationals is not very well accepted by domestic organisations and at the same time it does have some negative implications on the domestic countries. MNEs can harm local organisations by posing strong competition within the local product, labour and financial markets and at the same time private business development could decrease due to the MNEs offering job opportunities to those who would have initially started their own businesses.

Spencer (2008) takes this one step further and explains that various problems within the economic and political environment will start to manifest. This in return will lead to an increase in the country specific risk for foreign investments. In other words, M&As which take place within certain riskier developing countries will need better planning together with in-depth analysis of political risks and economic factors.

2.3.3 Risk analysis

Before an international merger or acquisition can take place there are two types of risks that have to be considered: Country risk and financial risk. Meschi and Riccio (2007) explain that there are inherent tensions that cannot be overlooked when M&As are conducted within countries with high economic and political uncertainty. It is important to examine these two components as the whole process of the M&A analysis will change if they are not properly examined.

Country risk and political risk

Meschi and Riccio (2007) explain that if the country risk deteriorates, the international joint venture will definitely face increased environmental uncertainty. This, In turn, will have an impact on the balance of the relationship between the partners and in the end will affect the survival of the joint venture. From an economic point of view Meschi and Riccio (2007) lists the following reasons for an increase in environmental uncertainty:

- Government default on payments,
- A devaluation of the local currency, and/ or
- An increase in interest rates.

These macroeconomic factors will have a negative impact on demand and consumption in emerging countries. Economic uncertainty is therefore unfavourable for the sales process and financial results of M&As that take place within emerging countries.

From a political point of view Gassebner and Pierre-Guillam (2010) indicate two reasons why M&As are sensitive to political risk. Firstly, political risk could result in larger taxation or expropriation by a country or a state which in turn will have a direct negative impact on M&A inflows. Secondly, governments can abuse their dominant positions and forbid M&A activities to take place therefore hindering foreign direct investment.

Finally, Gassebner and Pierre-Guillaum (2010) state that an increase in economic and political uncertainty will have a negative impact on the financial results, objectives and bargaining power of the parties involved in M&A transactions.

Financial risk

When engaging in M&As, organisations have to take various financial risks into consideration. Yan and Li (2009) list the following three factors which lead to financial risk:

- Overestimating or underestimating the value of firms

Target firms tend to conceal unfavourable information and at the same time exaggerate positive information. Two examples given by Yan and Li (2009) are equity risk and debt information risk. Equity risk is explained as a difference existing between the offer information and the real information. Debt information risk can be seen as a large debt that is not declared by the organisation and in the end the large debt falls on the bidders for no apparent reason.

A lack of rational evaluation methods and imperfect assessment of the overall system (the overall system of the industry) will also lead to incorrect evaluations of the industries and organisations.

- The choice of transaction methods

Yan and Li (2009) list three methods of payment for M&A deals: Leverage payment, cash method, and common stock payment. Each of these methods of payment has to be carefully considered before any deals are conducted.

Ovtchinnikov (2009) states that leverage payments will inevitably bring debt risk. When organisations use leverage payments as a method to finance their deals they rely on the funds received from loans to fund their various other transactions. In order for this method to be successful, the organisation has to have a stable cash flow to repay their loans otherwise the organisation will go bankrupt.

The second method used by organisations is cash. As discussed by Yan and Li (2009) organisations are usually under the impression that cash holds no risks. However, when an organisation has a low level of liquid assets, it will have a liquidity risk and according to the authors, liquidity risk is the most outstanding performance of cash payments. However, within the industry acquirers naturally prefer to use cash instead of stock when possible, especially if the organisation's balance sheet allows it (Zenner, Matthews, Marks and Mago, 2008).

Finally, Yan and Li (2009, p71) explain that 'the risk in common stock payment comes from the value-added expectation, the stock exchange expands the shareholder's base, leading to the decline of earnings per share. When investors doubt the target firm's ability of getting back earnings per share, the stock price of bidder will decline because of dilution of earnings per share.'

- Financial integration

Financial risk is divided into three categories: Mechanisms risk, financial risk and operational risk. Yan and Li (2009) point out that mechanisms risk is the incorrect allocation of resources between the firms involved during the integration period which in the end will result in a financial loss to the new venture.

As per Cummins and Xie (2008) financial risk means that firms are unable to increase their financial income and financial revenue and in the end will miss out on potential valuable investment opportunities. This together with the uncertainty of the macro- and micro-environment will affect the decision-making process in the financial operation, which in turn will lead to financial risk.

Cummins and Xie (2008) note that operational risk occurs when inadequate monitoring of financial activities takes place and will therefore spill over into a financial risk. Therefore, inappropriate financial integration will cause the end of financial management in the M&A process.

Proposition 1: Detailed risk analysis (Country risk/ Political risk, economic risk and financial risk) is a key success factor.

2.4 REASONS FOR MERGERS AND ACQUISITIONS

In a study conducted by McDonald, Coulthard and de Lange (2005) they found that one in every three C.E.Os. that they interviewed did not have a clear strategic motivation for a merger or acquisition. Even more alarming was that the C.E.Os. did not really understand the contribution that the M&A would make to their organisations long-term strategic future.

McDonald et al. (2005) gives emphasis to the use of M&As as a strategic vehicle to grow an organisation. C.E.Os. are under tremendous pressure to use their organisations' excess cash and increase earnings. This results in the organisation merging with or acquiring another organisation even if it is not an appropriate strategy. Organisations should look at M&A possibilities as a strategic step rather than using up their excess cash for no apparent reason (Yan and Li, 2009).

Based on the above information organisations need to understand which types of mergers and acquisitions exist in order for them to make appropriate strategic decisions. The most common mergers and acquisitions are listed below and explained in greater detail:

2.4.1 Types of Mergers

Horizontal Mergers

Choné and Linnemer (2008) define a horizontal merger as the corporate combination which will allow the assets of the acquired firm to be combined with the assets of the acquiring firm.

In this case, the acquiring organisation will keep its' corporate identity and at the same time will increase its market power whereas the acquired organisation will cease to exist. For example, when an organisation within the real estate industry is integrated horizontally it will be able to compete in different markets. It will be able to use a centralised estimating capability or make use of a single source of financing for deals. This in turn will allow the organisation to be more competitive and at the same time reduce various costs (Cummins and Xie, 2008).

Vertical Mergers

According to Matsushima (2009) vertical integration can provide an organisation with the potential to achieve a differentiation advantage. In this case, the organisation takes over the equipment to be used in the manufacturing of their products. For example, in the aircraft industry the jet engine and aircraft industries are vertically related. An aircraft company can buy the machines that produce the jet engines and therefore will be able to coordinate its operations more efficiently to deliver their planes before their competitors do (Matsushima, 2009).

Conglomerate Mergers

Joehnk and Nielsen (2009, p216) define a conglomerate merger as ‘a merger that takes place in which the assets of the acquired firm are equal to or greater than 10 per cent of the acquiring firm's assets’. The major motivations behind conglomerate mergers appear to be diversification of risk and financial synergies, rather than the achievement of economies of scale. The following example was given by Joehnk and Nielsen (2009): Within the construction and real estate industry organisations understand that the sector is at times very volatile, and their sources of revenue are at times inconsistent. Therefore, organisations sometimes merge with or acquire companies in different sectors in order for them to reduce their dependence in a volatile source of revenue.

Consolidation

Gennard (2009) states that a consolidation is when organisations merge, both the combining organisations lose their separate corporate identities, and the end result is an entirely new entity or organisation. For example, two trade unions merge and an entirely new union is created with a new name and union rule-book.

2.4.2 Types of Acquisitions

Initial Public Offering (IPO)

Helwege and Liang (2009) define IPOs as the process where a company has reached a stage of high growth, and then decides to issue stock to the public. Some of the benefits in doing this are that organisations can raise capital to expand their businesses, to provide liquidity for the existing shareholders, to benefit from dispersed ownership such as risk diversification, risk sharing and increased consumption. According to Helwege and Liang (2009) the founders or entrepreneurs of such organisations create greater value by selling shares in their organisation to outside investors. The founder of a firm can create value by selling the firm to outside investors.

Within the research conducted by Mauer and Senbet (2009) they explain that the trading of IPOs take place in two separate markets - the primary market and the secondary market. The primary market is where new securities are issued for the purpose of borrowing money for consumption or investment purposes. The secondary market is the term used for the markets where IPOs and all "seasoned" assets are traded publicly.

Burton (2006) states that various experts are involved in IPOs in order to raise capital. One of the more important experts in the IPO process is called the sponsor – the sponsor will either be an investment bank or stockbroker. The sponsor analyses all the information relating to the deal, advises on the composition of the board of directors, method of issuing shares, and the contents of the prospectus etc.

Helwege and Liang (2009) state that if the costs of going pubic are too high it would be better for the owner's organisation to stay privately owned. However, if these costs stay constant, then going public will have a significant increase in the effects of diversification, risk sharing or consumption.

Leverage Buy-Out (LBO)

A LBO according to Crook (2007) is a financial vehicle where an outside investor realises a future potential and purchases the equity of the target firm, relying on high levels of debt and investing very little or often no equity to finance the transaction. Crook (2007) realised that at times the resulting LBOs stock will be held by a partnership of institutional investors. These investors have the power to either keep the current management or to bring in a new team of managers to change the status quo.

Within the research conducted by Wilson, Wright, Campus and Altanlar (2009) it is pointed out that LBOs are financed with capital from junk bond markets. Wilson et al. (2009) understood that these transactions fall under a non-investment grade category. For example, the buyers will earn their profits at the expense of bondholders who will see their secured debt transformed into junk.

Leverage is seen as an excellent incentive for great management. The reasons provided by Crook (2007) is that leverage avoids wasting free cash flow in the process of empire building, and companies can take advantage of tax shields through the deduction of interest payments.

Hostile Take-over

Wilson et al. (2009) explain that even though the vast majority of large organisations are looking at M&As as a means to increase their future capital and asset growth, there are sometimes managers who are against being acquired by another organisation. In this situation the acquiring organisation can look at making use of hostile takeovers.

Williamson (2010) defines a hostile takeover as a means to acquire an organisation if there was a refusal from management to accept the acquiring firms initial offer for their stock.

Proposition 2: Determining the appropriate type of M&A deal is a key success factor.

2.4.3 Opportunities created by M&A activities

Choné and Linnemer (2008) agree that the primary benefits and the most important opportunities created by M&A activities is the potential to generate economic efficiencies and to acquire scarce resources. Choné and Linnemer (2008) list a few of the economic efficiencies created by M&As as follows: Synergies, economies of scope and scale, horizontal and vertical integration and being able to invest additional funds into sectors that are more profitable. In addition, the most important opportunities created by M&As are: Buying assets that are of interest to the organisation at a discount, acquiring human talent of supplies and providing for external growth.

Economic Efficiencies

The U.S. Merger Guidelines sec. 4, as cited by Choné and Linnemer (2008) states that economic efficiencies generated through mergers will improve the merged organisations ability and incentive to compete. This will result in generating lower prices, and improve the quality of services and new products offered. As per Williamson (2010), synergy is seen as the primary motive for which managers of both organisations' shareholders engage in takeover activities. However, synergy will only make sense if the reallocations of assets cause the merged firm to be more efficient in achieving economies of scale and scope. The end result according to the author will be cost savings which in return will lead to the organisation being able to compete more effectively and maintain profitability.

Synergies created through horizontal mergers are achieved by the replacement of inefficient management, increasing market share, and acquiring other firms' production facilities to limit the supply of products and services within an industry (Davis and Wilson, 2008).

In contrast, synergies created through vertical mergers as explained by Matsushima (2009, p2) 'can eliminate opportunism and thereby allow greater specialisation of assets to occur. When specialisation occurs, products can be more idiosyncratic and can be more differentiated. If the products become more differentiated, the force of competition can be lessened. Therefore, vertical integration can be a way for firms to commit not to produce identical products, which would be beneficial to them because it would lessen competition'.

Devos, Kadapakkam and Krishnamurthy (2008) suggest that various tax benefits could motivate mergers. Organisations are attracted by the opportunity to make use of tax shields, increase leverage, and further exploit other tax advantages. Within a another study conducted by Devos et al. (2008) the author found that the announcement period of abnormal returns were positively linked with the tax attributes of the target firm. Examples were given, such as net operating loss carry forwards, unused tax credits and higher depreciation mainly due to the step-up in the basis of the acquired assets. However, Leland (2007) noted that Internal Revenue Service's closely dissect transactions which are purely tax oriented.

As per Devos et al. (2008) another reason for taking part in a merger is to raise the prices through market power, in other words, profit maximizing. This can be done successfully by taking advantage of the organisation's marketing skills, especially in the situation where the organisation's products are complementary.

Acquisition of Scare Resources

Zula and Chermack (2007) recognise human capital as an extremely important factor that can have an effect on the success of any merger. Efficient management can be seen as one of the scarcest resources that an organisation needs in order for it to continue to grow. According to the authors there is, however, a danger for the acquiring company in paying higher than normal salaries for managers who might leave after the acquisition has taken place.

Banea, Mihalcea and Wiebe (2008) list the acquisition of raw materials in the same category of scarce resources. Within their research the authors realised that there is the opportunity to merge and integrate with the supplier or to obtain the competitor's assets with the primary focus of expanding the organisation's production facilities. At times it can be much cheaper and faster to buy equity when entering new markets than to establish subsidiaries to build up so-called "Greenfield plants" from scratch.

2.4.4 M&As and the value creation for Buyers

Beitel and Schiereck (2008) state that most organisations aim to grow their businesses by making use of various strategies which will limit the amount of risk involved. According to the authors the most prominent gains can be achieved when several organisations combine their value creations to create a sum that would be much larger than the value that an organisation can create separately.

Beitel and Schiereck (2008, p7) define this process as 'incremental effectiveness through synergies' and this process is obtained through the integration of the organisations after a merger has taken place. At this stage it is very important that the organisation limits the amount of negative present value projects. Zula and Chermack (2007) agree with Beitel and Schiereck and further state that the process of management layoffs and insufficient sell-offs are also common practices in the post M&A process. Leland (2007) on the other hand stipulate that by making use of tax savings which have been occurred through interest deductions, an increase in the market value of the organisation will be realised.

Zula and Chermack (2007) have realised that in order for all of the above benefits to be realised by organisations, it is extremely important that managerial goals are in line with those of the shareholders. The success factor of an acquisition can be increased when management is devoted to the work at hand rather than being motivated by compensation and benefits.

Devos et al. (2008) consider acquisitions as the preferred method to internal expansion when factors of pricing and closing dates are imperative.

2.4.5 M&As and the value creation for Sellers

As per Ebneth and Theuvsen (2007), value creation for sellers can be achieved through the following:

- Retirement and estate planning programs;
- Selling-off of non-strategic businesses;
- Reorganisation of firms in the case of bankruptcy;
- Exit strategy for venture capitalists; and
- The sale of new potential business ventures that cannot be realised due to various factors outside of the entrepreneurs' control.

According to Leland (2007) the objectives of sellers are mostly focused on the elements of receiving the optimal price together with the best available payment terms. Ebneth and Theuvsen (2007) further state that sellers want to have certainty in the simplicity and prompt completion of the acquisition process. Within the research conducted by Leland (2007) it has been realised that sellers often make special considerations in price and payment terms if the buyers respond strongly to the objectives of the sellers.

Wilson et al. (2009) understand that sellers usually start off in the acquisition process with objectives that are both numerous and highly optimistic. It is recommended that the sellers' first priority during the due diligence process should be to do an appropriate screening process of the potential buyers for reputation and legitimacy. Zollo and Singh (2004) further elaborate on this by stating that sell-offs have the potential to generate greater profits if the sellers have conducted their research and sell their assets to strategic buyers, in this case, to horizontal or vertical buyers.

2.4.6 Dubious reasons why M&As are being conducted.

Diversification

Spencer (2008) discusses the concept of diversification as when certain companies within stagnant industries merge with new products for other industries.

These organisations will declare that they have created value with this process by decreasing or spreading out the firm's risk. However, Williamson (2010) argues that diversification done in such a manner will not be able to increase value because it is possible for investors to diversify more cheaply by themselves. For example: When the C.E.O. of a privately owned organisation avoids paying taxes by merging with another organisation instead of selling his shares in order to preserve firm's capital gains.

The Bootstrap Method

Banea et al. (2008) explain that managers often use an increase in earnings per share as a means to justify a merger. This claim sounds viable since the combined effect on the stock of the parties involved can definitely increase this ratio by a substantial amount. However, if the price of the organisation's stock remains at the same level, the result will be that no value is created and in the end the price/earnings ratio will fall.

Lower Financing Costs

Yan and Li (2009) state that managers often use the argument of lower financing costs as a reason for M&As, since one of the main goals for organisations is to grow their organisation in order to reduce the interest rate on their debt. However, Yan and Li (2009) argue that lowering financing costs is not an appropriate reason for organisations to merge since debt of a newly formed organisation is much safer – which according to the authors only benefits creditors – than a separate debt for each company.

As per Wilson et al. (2009) organisations have reached a predicament where they are losing the option to default independently and their new debt is cross-collateralised – this is when organisation have the option to default on an asset by asset basis.

Wilson et al. (2009) further argue that it is possible for a merger to create value by making debt safer for the organisation due to the choices of an optional debt ratio. A situation such as this is a trade-off of the value of tax shields on interest payments against the present value of possible costs of financial distress, all other factors being equal. If the situation allows increased borrowing together with an increased value from the interest tax shield, the end result will be a net increase to the merger and consequently lowering financing costs which are fitting reasons to validate a merger (Wilson et al., 2009).

2.5 SUCCESSFUL IMPLEMENTATION OF A MERGER AND ACQUISITION STRATEGY

According to Zollo and Singh (2004), mergers and acquisitions can be a very difficult process to master. If done incorrectly it will destroy the decision-making cultures of the newly established organisation. It is a process where individuals and organisations are unfortunately required to learn the M&A process by taking part in an actual M&A transaction.

As with many disciplines, the more experience a person has in a certain area the more successful they can be. M&A practice can definitely be seen in the same light e.g.: Experienced managers or entrepreneurs are more successful at buying organisations than managers and entrepreneurs who are less knowledgeable (Zollo and Singh, 2004). However, most major organisations will at some point in their future take part in a M&A transaction. It is for this very reason that Cartwright and Schoenberg (2006) urge these inexperienced organisations to follow a structured plan of action and to focus on the two main processes of every M&A process:

1. Target Assessment
2. Amalgamation of organisations

2.5.1 Target Assessment

The first step in the mergers and acquisitions strategy process is to make a realistic assessment of the potential value of the target organisation. In order for the bidding organisation to achieve this assessment, it has to evaluate the impact that the purchase price and the strategic target will have on the future of the integrated organisation (Eisenhardt and Graebner, 2007).

Purchase Price

Within the research from Coates IV and Subramanian (2000), it was found that negotiations are an increasingly important aspect of M&A transactions. The purchase price for an acquisition will be negotiated by both the sellers and the buyers of an organisation. Coates IV and Subramanian (2000) explain that even though the value of the organisation and its assets have been determined, both parties who are involved in the M&A transaction are usually uncertain about what the asking price or the selling price should be. Therefore, expert advice and valuations can be received by hiring financial experts who are certified public accountants, investment bankers or specialised appraisal organisations (Coates IV and Subramanian, 2000).

Rhéaume and Bhabra (2008) list the following most common methods of valuation which can be used to assess a M&A. It has to be noted that each of these methods has pros and cons in the context of M&A transactions:

- BV (Book value), and
- Discounted Cash Flow Analysis (DCF)
- Economic Value Added (EVA)
- P/E Ratio (Price-Earnings Ratio),
- ROE (Return on Equity).
- WACC

Book Value (BV) – Reilly and Brown (2005) state that the majority of merger and acquisition transactions are valued at between 1 and 3 times their original book value. This is however not an efficient method for the valuation of an organisation. One of the reasons as indicated by the authors is that BV does not take the earnings power of the organisation's intangibles into consideration. However, BV takes tangible assets into consideration and tangible assets can be used as collateral by a lending organisation.

Discounted Cash Flow Analysis (DCF) – Zenner et al., (2008) define DCF as a valuation method that is used to estimate the attractiveness of an investment opportunity. DCF uses future free cash flow projections and discounts them to arrive at a present value. This method is used to evaluate the potential for the investment. The calculation mostly makes use of the weighted average cost of capital and if the calculated value is higher than the current cost of the investment, the transaction could be perceived to be a profitable one in the future (Zenner et al., 2008). According to the literature the biggest challenge faced when utilising the DCF method is estimating the future cash flows and discount rates in cross-border transactions.

Economic Value Added (EVA) – Sharma, Hui and Tan (2007) explain that the focus of EVA is on the managerial effectiveness within a given year. It measures an organisation's true economic profit and ignores the organisations accounting profit. Sharma, Hui and Tan (2007) define economic profit as the residual income generated from a project after the cost of capital for that project has been paid off. Further to this definition, EVA measures a firm's effectiveness in increasing its value during a given year.

Price/Earnings ratio (P/E) – According to Firer et al. (2008) a P/E ratio is a variation of the payback analysis. It is a very important measure and probably one of the most accurate measures used in valuing an organisation. A P/E ratio indicates the earning power of an organisation and to potential investors this should be an important figure when they are in the process of taking control of a firm.

Return on Equity (ROE) – "ROE indicates the rate of return that management has earned on the capital provided by stockholders after accounting payments to all other capital suppliers" (Reilly and Brown 2005, p319). This measurement is of value to organisations that have achieved a larger return on their assets in comparison to their internal growth rate. Reilly and Brown (2005) realised that these types of organisations can produce enough cash to pay for their debt services.

Weighted average cost of capital (WACC) – According to Reilly and Brown (2005) WACC is the weighted average cost of capital for the capital or funds used to finance the various deals. More simply stated, it is the cost calculated to gather the funds and is explained by the following equation:

WACC = Cost of equity + Cost of debt (Reilly and Brown, 2005). Cost of equity is defined by Reilly and Brown (2005) as the cost of issued stock while cost of debt is defined by them as the cost of borrowings.

Proposition 3: Assessing the target company is a key success factor.

2.5.2 Strategic Fit

Within the research conducted by Rodríguez-Pose and Zademach (2003) it was found that before an organisation can start with a M&A process it should firstly establish whether the acquiring firm is in fact a strategic fit. In order to do this the acquiring organisation should make adequate assessment of the organisation that is to be acquired. Once the outcome has been achieved and is seen as positive, an appropriate framework should be established in order to determine whether this M&A does in fact add value to the strategic plan of the company.

The theories which have been developed to explain these types of investment decisions are classified by Rodríguez-Pose and Zademach (2003) as strategic (i.e. diversification, innovation, or efficiency), behavioural (i.e. the interaction between management motives and the external environment) and economic (such as synergy, economies of scale, growth or multiple sourcing). However, this is not the case for all organisations that would like to make use of a merger and acquisition strategy to grow their organisation in the long-run. Merger and acquisition transactions are very risky and these types of transactions should be planned thoroughly in order to minimize the various risks involved (Beitel and Schiereck, 2008). Careful consideration should be taken by acquiring companies who wish to expand in order to grow their organisations further.

Beiteil and Schiereck (2008) conducted newer research and found that great value should be placed on experience curves in order to identify the extended levels of activity in a M&A transaction. Beitel and Schiereck (2008) found that if an organisation is labour-intensive there could be a possibility that the unit costs will fluctuate because of the learning process. On the other hand as per Rodríguez-Pose and Zademach (2003) capital intensive organisations focus more on achieving financial advantages, production capacity and technological advances. Finally, the organisation that is able to go through the experience curve quicker will result in being the price leader with the advantage of securing a cost advantage over their competitors.

Proposition 4: Determining the strategic fit of the organisation is a key success factor.

Due Diligence

Mergers and acquisitions according to Perry and Herd (2004) are becoming more complex every year, and due to the increased difficulty and increased risk to deal making appropriate due diligence becomes even more important. The most important factor for organisations to determine the fit of a merger or acquisition is to get past the traditional practices of a financial due diligence process and instead perform a detailed value assessment. This as stated by Perry and Herd (2004, p13) is called “pre-assessment” or an “improved due diligence”. This type of due diligence takes place prior to signing a memorandum of understanding (MOU) and it must include the examination of both managerial and operational risks and issues.

In addition to the research conducted by Perry and Herd (2004), Bertoncelj (2009) researched and found that due diligence has to include various methods to support organisations’ valuation processes, negotiations procedures, structuring, and post-acquisition planning. The aim of the due diligence investigators is to uncover as many risks associated with a specific deal. Bertoncelj (2009) advises managers who are about to take part in a merger and acquisition deal to make use of an insightful due diligence process that will cover all the major sections of business processes.

Executives will then be able to use the information gained by the due diligence process to value its target organisation. Once this has been done the executives can then communicate to the board of directors, create a mergers and acquisitions strategy to improve the bidding process, and accelerate the integration plan of the newly formed organisation (Perry and Herd, 2004).

Proposition 5: Performing an appropriate due diligence assessment is a key success factor.

Organisation Culture

Within the corporate environment it has to be realised that organisational culture can be the end-all or be-all when it comes to mergers and acquisitions. Bertoncelj (2009) notes that in the past it was believed that very little could be done to avoid a clash of the two organisational cultures. Breakwell (2006) claims that in order for two companies to integrate successfully, integration will have to be done in such a way that they are as similar as possible by attaining a mutual organisational culture. In the past and in reality the acquired company automatically has to submit with the acquiring company’s culture and routines, hence the reason why numerous newly formed organisations fail as the acquiring company’s culture is being forced unto the newly acquired members (Bertoncelj, 2009).

The cultural due diligence process which has to be performed on the acquirer should be the first step in the cultural assessment in a merger and acquisition deal (Chen, 2008). Chen (2008) further explains that the acquiring company should make its intentions clear right from the start before any M&A activity is to be performed. Once this has been done successfully the cultural due diligence can be performed on the target company.

Proposition 6: Assessing the cultural fit of both organisations is a key success factor.

Synergies

Hoberg and Phillips (2009) advise executives to be familiar with their core competencies and values of their companies. Executives have to be able to identify which business ideas can add value and they have to able to map them. Based on the core competencies and values, the executives should then select the targets which will add value to their existing business model.

Synergies, according to Bertoncelj and Kovač (2007) need be defined in economic terms; the whole concept of synergy is to create value where the whole is greater than the sum of the parts. Bruner (2004) further elaborates and states that synergies should create value for shareholders by producing additional benefits from a merger which would otherwise not have been achieved by the organisation on its own. In other words, combining strong organisational operations of both companies would enhance existing strong added value potentials, add new added value potentials and strengthen existing weak added value potential (Bertoncelj and Kovač, 2007).

The goal of a merger or acquisition is to combine the two companies with the end result being revenue enhancement synergies, cost reduction synergies, asset reduction synergies, tax synergies, and financial synergies (Devos, Kadapakkam and Krishnamurthy, 2009). The process of Synergy evaluation requires that the organisation performs a detailed due diligence analysis, and it should not be based on guesswork or, even worse, be dictated to make the deal look more alluring (Bertoncelj, 2009).

Proposition 7: Determining organisational synergies is a key success factor.

2.5.3 Amalgamation of firms

The second step in a successful M&A strategy as researched by Cartwright and Schoenberg (2006) is the amalgamation which takes place between the bidding company and selling company to either merge or be acquired. The important factors that have to be focused on are explained in the following section:

Pre-Acquisition Strategy

Leland (2007) realised that the M&A transaction is relatively easy, i.e.: the buying of another company, but the process of management is much more complicated. The reason for complicated management processes is that there are various risks involved and one of the errors that the management of organisations tend to make is that they oversimplify most factors that are involved in the process. A well-executed M&A can result in organisations achieving great investment returns within a very short time. Therefore, in order for a M&A transaction to work effectively it should be encouraged by the pricing and strategic fit analysis described in Section 2.5.1. Beitel and Schiereck (2008) exclaim that managers need to follow a stipulated plan of action and should never lose focus of what the reasons are for them to take part in a M&A.

M&As can only be viewed as successful once they are a legal fact and after an organisation has been conducting business successfully for a couple of years. The company has to be managed correctly and effectively with the result being a stable and profitable organisation (Crook, 2007). Lubatkin (2006) noted that an organisation's size is of great value to the company and it should be considered as a fit to the company's overall strategy. Therefore, the size of an organisation can be looked at, and managed according to the following situations:

1. Acquiring a Small Subsidiary, and
2. Merger of Equals.

Buying Small Subsidiaries – Slowinski, Rafii, Tao, Gollob, Sagal and Krishnamurthy (2002) argue that the biggest problem that an organisation will face when a smaller subsidiary has been purchased by a larger company is the possibility that employees might be traumatised. Management should therefore be in control and explain these types of situations to their employees before any situation gets out of hand and the company loses valuable employees to competitive organisations. Slowinski et al. (2002) clarify that in order to avoid such problems careful analysis should be done to determine the timing and change in sensitivity.

Merger of Equals – Organisations dealing with mergers of equal size within the same industries need management who are able to make quick and calculated decisions. Highly competent senior management is a valuable asset and can make the difference between success and failure of the merger. Further to this, the newly merged organisation needs to distinguish itself from the previous and separately owned companies (Gennard 2009).

Proposition 8: Amalgamation of firms is a key success factor.

Managing Management

As per Zula and Chermack (2007) human capital should be seen as one of the important factors affecting the success of a M&A. Merger traumas are a very big possibility when dealing with these types of transactions and senior management should avoid neglecting the human factor. Management need to work as fast as possible to get to know their employees while keeping the various personalities in mind when structuring their new departments (Zula and Chermack 2007).

In the case of senior management, Williamson (2010) researched the possibility that a department will end up with more than one head of department. In a situation such as this, management must immediately start cutting down their workforce to a more manageable proportion. Within such a situation it is recommended that management allow early retirement and encourage voluntary non-executive director status.

In the case of middle management, supervisors, operations and line staff are advised by Zula and Chermack (2007) that the best route to follow is to declare jobs vacant and to request internal applications within the first month of the M&A completion. It is important for management to take the loyalty of employees into consideration. There is the possibility that single employees, and in the worst case scenarios, whole teams will leave if a key manager or supervisor is not appointed.

Finally, within a country such a South Africa where the trade unions play a major role in representing their members, it would be advisable to gain the support of the essential union parties. Organisations that follow this advice, will be able to avoid many future troubles and legal processes (Gennard, 2009).

Proposition 9: Effectively managing management is a key success factor.

Company Consolidation

McDonald et al. (2005) provides various reasons why an organisation should maintain its momentum once the M&A process has been finalised.

Merger consolidation will be achieved as soon as the company has managed to successfully implement organisational change, achieved appropriate product integration and established a new public profile. McDonald et al. (2005) would like to make organisations aware of the fact that the process of integration needs to happen and with this a sufficient contingency plan has to be created in order for management to know how to handle certain crises.

It is important for management to realise that joint financial material as well as human resource material should be filtered and assessed. This will help the merged or acquired company to set a new direction for itself and at the same time will help the organisation to avoid rushing into business deals during the initial stages.

Finally, according to McDonald et al. (2005), effective M&A transactions will depend on the types of organisations that are involved in the process. For example, the merger of two construction companies will only be able to show real profit after a couple of years due to the nature of this industry. On the other hand, mergers or acquisitions which take place between financial organisations will be able to show quicker results and success or a failure can be realised at a much earlier stage.

Proposition 10: Company consolidation / post integration is a key success factor.

2.6 SUMMARY

In the last few years organisations have realised that in order to grow successfully they can make use of a M&A strategy. While not a new phenomenon, the number and size of these types of transactions have increased substantially. Despite the number and size of acquisitions there is ample evidence found in the literature that state that more than half of all acquisitions are considered to be failures.

Within the literature, major studies identified various reasons for these failures and the most prominent factor that stood out from all the literature collected is that organisations are entering blindly into merger and acquisition deals. It is important for those organisations wishing to enter into a merger or acquisition to realise that there are key factors which need to be focused on in order for the merger or acquisition transactions to have a chance at success.

The literature identified that organisations need to conduct a detailed risk analysis before entering into an international market. This risk analysis entails looking at the country risk together with the political, economic and financial risk that could have an influence on the future success of the deal.

Once the risk analysis has been completed, the organisation must understand what type of merger and acquisition deals exist. The deal type will determine what route the organisation would have to follow in order for the firm to make better business and transaction decisions.

Once the type of M&A deal has been decided upon, the organisation can then go into the market and look for the appropriate organisation which they would like to acquire. Determining whether the potential company is a strategic fit is a factor that has often been overlooked and this has been highlighted repeatedly in the research.

According to the literature, most companies know that conducting a due diligence process is very important in bringing out any unwanted malpractices, procedures etc. However, even though organisations are aware that this step is vitally important they still do not take the due diligence process very seriously. Similarly, cultural fit is often overlooked as organisations are mostly focused on the financial end results and want to achieve the appropriate target bottom line by any means possible.

Another factor that stood out from the literature is that organisations need to enter into a M&A deal with synergy creation in mind. Together with this factor amalgamation of the firms has been identified as another major factor in the M&A process.

Finally, managing management and company consolidation have been identified as very important factors that should not be overlooked. By focussing on these factors it will ensure that the new organisation will be running more effectively and achieve greater success in the long run.

3 PROPOSITIONS

The following research propositions arise from the preceding sections of the literature review:

Proposition 1:

Detailed risk analysis (Country risk/ Political risk, economic risk and financial risk) is a key success factor.

(Meschi and Riccio 2007; Gassebner and Pierre-Guillam 2010; Yan and Li 2009; Cummins and Xie 2008)

Proposition 2:

Determining the appropriate type of M&A deal is a key success factor.

(McDonald et al. 2005; Matsushima 2009)

Proposition 3:

Assessing the target company is a key success factor.

(Eisenhardt and Graebner 2007; Reilly and Brown 2005; Subramanian 2000)

Proposition 4:

Determining the strategic fit of the organisation is a key success factor.

(Rodríguez-Pose and Zademach 2003; Beiteil and Schiereck 2003)

Proposition 5:

Performing an appropriate due diligence assessment is a key success factor.

(Perry and Herd 2004; Bertoncelj 2009)

Proposition 6:

Assessing the cultural fit of both organisations is a key success factor.

(Bertoncelj 2009; Breakwell 2006)

Proposition 7:

Determining organisational synergies is a key success factor.

(Hoberg and Phillips 2009; Bertoncelj and Kovač 2007; Bruner 2004)

Proposition 8:

Amalgamation of firms is a key success factor.

(Cartwright and Schoenberg 2006; Leland 2007; Beitel and Schiereck 2008)

Proposition 9:

Effectively managing management is a key success factor.

(Zula and Chermack 2007; Gennard 2009)

Proposition 10:

Company consolidation / post integration is a key success factor.

(McDonald et al. 2005)

4 RESEARCH METHODOLOGY

4.1 RESEARCH METHODOLOGY / PARADIGM

4.1.1 Research Paradigm

The research paradigm of the study is qualitative and exploratory in nature. The main focus points of qualitative research are very different from those in quantitative research. Flick (2009) listed the important features of qualitative research as follows:

- Decide which methods and theories are appropriate;
- Recognise and analyse the work of other writers as well as their perspectives;
- The researchers' reflections on the work that they have analysed are an important part of the process in producing new knowledge; and
- Having a variety of approaches and methods will add to the depth of the study.

The literature review and face-to-face interviews provide the qualitative data for the research. Marshall and Rossman (2006) explain that qualitative research is more concerned with the primary processes than with the outcomes or products. Qualitative research's primary focus is on how people are trying to make sense of their lives, the experiences that they have and their structure of the world. Marshall and Rossman (2006) further explain that qualitative research is viewed as descriptive and that it is interested in people's meaning. Finally qualitative research is inductive and it uses details to build abstractions, concepts, hypothesis and theories.

An exploratory approach was used as an appropriate research method for the study. An exploratory study is conducted to gain insight into a relatively unknown research area. Babbie (2008) has identified that there are three primary reasons for conducting exploratory studies. The first is to understand that there is a curiosity and desire by the researcher for a better understanding of a topic. Secondly, the researcher would like to test the feasibility of undertaking a more extensive study, and thirdly the researchers' aim is to develop the new methods that will be employed in any subsequent studies.

The information obtained from the literature review and interviews were analysed by means of content analysis. Elo and Kyngas (2008) state that content analysis is used to analyse the content of diverse media which include written, verbal and visual communicated messages. The purpose of the analysis is to identify specific information content and characteristics of the messages.

The spectrum of research material on the subject is so diverse that it will not be of practical use to executive management who are involved in mergers and acquisitions within the construction industry. The research has therefore provided a framework for applying the principles that were identified.

4.2 RESEARCH DESIGN

The information for this research project was firstly gathered by means of a literature review, and secondly by making use of a questionnaire containing open-ended questions, which were administered during face-to-face interviews with the various respondents.

Eisenhardt and Graebner (2007) view face-to-face interviews as a highly efficient method to obtaining rich empirical data especially when the topic of interest is highly episodic and infrequent. However, interviews have a tendency to provoke "knee jerk" reactions and can be prejudiced. In this situation impression management and retrospective sense making can be seen as the culprits. Eisenhardt and Graebner (2007) further state that the best way to mitigate the challenge of interview data is to make use of data collection methods which limit bias.

One of the key approaches that they explain is to use numerous and highly knowledgeable informants who will interpret the topic of interest from different points of view. It is pointed out that they tried to limit bias by making use of a research population which included interviews with executives from two hierarchical levels at selling organisations, interviews with executives from two hierarchical levels at buying organisations, interviews with board members from both selling and buying firms as well as interviews with investment bankers who provided them with background information on mergers and acquisitions.

Denscombe (2007) concludes that if face-to-face interviews are conducted in a professional manner, they provide the interviewer with the opportunity to gain more clarity into answers that are not understood and it will also offer the opportunity to follow up on any answers that will need further relevant information.

The interviews conducted during this research used a structured open-ended technique to determine the particular perspectives and opinions of the selected M&A advisors and experts within the construction industry. They are therefore contributing to a picture of comparison and contrasts.

4.3 POPULATION AND SAMPLE

4.3.1 Population for interviews

The target population for the research is firstly selected financial experts within the financial banking industry who have assisted and advised organisations in M&A transactions in the construction industry. During each of the interviews a list of potential respondents were requested from these experts. The lists obtained from the financial experts were used together as a directory and listed potential respondents (both targets and bidders) who have taken part in M&A transactions within the listed construction sector in South Africa. (See Appendix B for a list of the financial institutions and financial experts which were used for the initial interviews.)

4.3.2 Sample and sampling method for interviews

The quality of the participants and the responses were of importance here. "In research, bias is any influence, condition or set of conditions that singly or together distort the data" (Leedy and Ormrod 2001, p221). A convenience sample was used in this study and it is acknowledged that the sample only represents a small percentage of the listed construction companies. A list of potential respondents was received from a senior lecturer at Wits Business School. Selected participants from the list do not represent the entire spectrum of the population.

The sample was limited to the Gauteng area and to the industry experts who operate in this province. Between twelve and seventeen respondents were targeted for the interviews. The size of the sample was considered as adequate since the data collected was qualitative and therefore not subjected to any statistical analysis. During the interviews, the amount of new information was examined closely and when it was decided by the interviewer the interviews were stopped once sufficient amount of information was gathered and could be used to reach sound conclusions.

4.4 THE RESEARCH INSTRUMENT

Rubin and Babbie (2009) mention in their research that when the goal of the researcher is to conduct all interviews in a consistent and thorough manner with a minimum of interviewer effects and biases, the strategy of the researcher should then be to conduct standardised open-ended interviews. Rubin and Babbie (2009) explain that a standardised open-ended interview instrument should consist of questions that have been written in advance in the exact manner that the interviewer wishes to ask the questions.

Rubin and Babbie (2009) based the questionnaire on the following guidelines:

- The questionnaire will be as brief as possible to seek only the information essential to the research project;
- Simple, clear and instantly recognisable language will be used;

- The respondents' tasks will be kept simple; and
- Clear instructions will be provided to the respondents.

Open-ended questionnaires need to follow a standard set of questions (the structured part) together with additional questions which help the researcher to gain clarity on the respondents' answers (Rubin and Babbie, 2009). These questions are therefore seen as the qualitative part of the research. The design allows the researcher to penetrate the respondents' perceptions and therefore gain a deeper understanding of the respondents' point of view. Secondly, the questions create opportunities in revealing unexpected issues, and finally this type of questionnaire enhances the respondents' anonymity. The respondents therefore feel more at ease and are able to answer the questions more honestly.

4.5 PROCEDURE FOR DATA COLLECTION

The first step in the process of interviewing the potential respondents was to approach each of them telephonically and to explain the scope and purpose of the research to them. Upon the respondents' requests, information about the research topic that could be used for background purposes as well as the estimated duration of the interview was e-mailed to him or her.

It was specified to the respondents that the interviews would take between thirty and forty five minutes to complete. A tape recorder / Dictaphone was taken into the interview. However, permission for the use of the tape recorder / Dictaphone was requested prior to any interview. A word-for-word transcript of each interview formed the basis of the data analysis after the interviews were conducted.

In order to extract valid and unbiased answers from the respondents, the interviews were conducted from the general M&A topic to the particular topic of M&A strategies in the construction industry. Questions were asked that defined various terms and broader boundaries were determined before proceeding to particular details. Rubin and Babbie (2009) advise that as an interviewing process progresses, the researcher should incorporate questions that will reconfirm earlier answers from the previous respondents.

A copy of the interview schedule that was used when the interviews were conducted is contained in Appendix A. Once the interviews were conducted permission was obtained from each of the respondents to record and write out their interviews, and each respondent was also assured of their anonymity.

4.6 DATA ANALYSIS AND INTERPRETATION

As indicated in section 3.1.2 the responses were analysed by means of content analysis procedures which allowed for both qualitative and quantitative analysis of data. The analysis followed a less structured and more open procedure:

1. In preparation for analysis, the questionnaires were administered to the different groups of respondents, financial advisors, and the experts in the construction industry. Once the data was received, the results for each group were analysed separately.

2. Out of each response to the questions in the questionnaire the key phrases and meanings were recorded and grouped together. After this, the patterns in the key phrases and meanings were analysed and the emerging factors were analysed.

3. Further analysis was needed to identify whether there are links between the identified factors. These factors were then grouped together on the basis of their similarities.

4. The factors and frequencies obtained from the various groups were compared and the similarities and differences were written down.

5. The various factors that came out of the research as well as the frequency tabulations were reported as the findings of the research. The findings from the literature review and interviews were compared to obtain the specific information content and similar characteristics of the messages.

6. Finally, recommendations were made, based on the consolidated information.

4.7 LIMITATIONS OF THE STUDY

The research conducted was reliant upon the availability of the sample of individuals who are experts in their various fields. Although there was a high probability that potential respondents would agree to contribute in the interviews, the possibility of interview cancellations were not overlooked. The researcher made every effort to arrange for dates that were within a short period from the telephone conversation of each respondent. This ensured that the respondents would honour their commitments.

As for the literature review, the result of the sampling technique caused the researcher to overlook and omit the work of major authors on the subject of mergers and acquisitions. These limitations did not have any significant effects on the research as the information from the interviews provided the additional information needed to finalise the results and conclusions for the research.

4.8 VALIDITY AND RELIABILITY

4.8.1 External validity

External validity of studies purported to guide best practices is partly a matter of being able to generalise from a study to a larger population (Green and Glasgow 2006). The sample size used was large enough and diverse enough to include the experts from the financial (specialists in M&A) as well as from the construction industry. The researcher obtained guidance from a senior academic at the Wits Business School to ensure that the sample used was sufficient. The aim was not to detract from the external validity of subsequent research findings.

4.8.2 Internal validity

As per Linda, Amy and Thomas (2008) internal validity draws appropriate conclusions from the data that the researcher has received. The focus of internal validity is to ensure that the collection process is consistent with each and every interview. During this research, internal validity was ensured by replicating the interview structure with every interview. In order to ensure internal validity, multiple contacts at each firm contributed to the research. By making use of the main topics, themes and facts within the literature review and comparing the information found in the material subtracted from the interviews it further supported the internal validity of the study.

4.8.3 Reliability

Breakwell (2006) defines reliability as the consistency and stability to yield the same results on repeated trials. One of the steps to follow to ensure reliability of the research is to always administer the research instrument in a consistent fashion. Another step that the researcher can follow in the event that subjective judgements are required, is to establish specific criteria that will dictate the types of judgements which the researcher will be allowed to make. Finally, if the researcher wishes to make use of assistants, the researcher will have to train the assistants to use the correct research method so that they can achieve similar results.

In light of the step mentioned above, the researcher did not make use of any research assistants. The researcher was therefore the only person who conducted the study. This ensured that a consistency in approach was maintained.

As for the face-to-face interviews, in order to enhance the reliability of the study, topic related definitions and explicit explanations were considered for the research when communicating took place with the respondents.

5 PRESENTATION AND INTERPRETATION OF RESULTS

5.1 PRESENTATION OF RESULTS

Two matrixes of the responses collected during the interviews conducted with the 8 financial advisors and 8 construction executives have been included in table 1 and table 2. The matrixes contain the responses to the research propositions formulated in the literature review and the responses for additional key factors identified during the study was included in Chapter 7 as additional findings. “QNA” in these tables represents ‘Questions not asked’, as this indicates where new reasons were introduced after these participants were interviewed and therefore they were not asked the question in the interview.

“Minor” in these tables indicates that the respondent answered the question with either a “Yes” or “No” answer, with little to no elaboration taking place. The symbol “√” indicates that the respondent answered the question and at the same time elaborated on the specific key factor. The symbol “X” indicates that the respondent only answered the question with a “No” and did not want to carry on with the specific topic.

For the purpose of anonymity the identities of the respondents have been concealed and their names replaced with codes that were used in both the presentation and the analysis of results section. The codes FA1 to FA8 represent the financial advisors who participated in the study and the codes CE1 to CE8 represent the construction executives who participated in the study, respectively.

Tables 3 and 4 contain the Formulation of strategy and the M&A profile. For the Formulation of strategy respondents were asked to either reply “Yes” or “No” and to rate the importance of a M&A strategy. For the M&A profile respondents were asked to rate the measurement of importance of the success factors. The respondents have been divided into two tables representing the two groups of respondents included in the study. The questions’ findings are therefore discussed in the ‘Interpretation of Results’ chapter.

Table 1: A Matrix of the responses collected from the financial advisors interviewed

Code	*Formulation of Strategy*	*Risk Analysis*	*Types of M&A's*	*Target Assessment*	*Strategic Fit*	*Due Diligence*	*Organisational Culture*	*Creating Synergies*	*Amalgamation of Firms*	*Managing Management*	*Company Consolidation*
FA1	√	√	√	√	√	√	√	√	√	√	√
FA2	√	√	**X**	√	√	√	√	√	√	√	**QNA**
FA3	**X**	√	**(minor)**	√	√	√	**X**	√	√	**X**	√
FA4	√	√	**X**	√	√	√	**X**	√	√	√	√
FA5	√	√	√	√	√	√	**X**	√	√	**X**	√
FA6	√	√	√	√	√	√	**X**	√	√	**X**	**X**
FA7	**X**	√	**(minor)**	√	**(minor)**	√	√	√	√	√	**X**
FA8	√	√	QNA	√	√	√	√	√	√	√	√

Table 2: A Matrix of the responses collected from the construction executives interviewed

Code	Formulation of Strategy	Risk Analysis	Types of M&A's	Target Assessment	Strategic Fit	Due Diligence	Organisational Culture	Creating Synergies	Amalgamation of Firms	Managing Management	Company Consolidation
CE1	√	√	√	√	√	√	X	√	√	X	√
CE2	√	√	√	√	√	√	√	√	√	X	√
CE3	√	√	√	(minor)	√	√	X	√	√	√	√
CE4	√	√	√	(minor)	√	√	X	√	√	√	√
CE5	√	√	√	√	√	√	√	√	√	√	√
CE6	√	√	√	√	√	√	√	√	√	√	√
CE7	√	√	√	√	√	√	(minor)	√	√	√	√
CE8	√	√	√	√	√	√	√	√	√	√	√

Measurement of importance

The respondents were asked to answer either “Yes” or “No” and to indicate their answers as 1 for “No” and 2 to 5 for “Yes” which also indicates the level of importance. Importance had been given to each success factor in the acquisition process. Responses ranged from (1) ‘not important at all’ to (5) ‘most important’.

Table 3: Key factors in decreasing order according to average grades

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
		Number of responses **(n = 8)**				**Averages**
Formulation of Strategy	2	0	0	2	4	3.75
M&A Profile						
Target Assessment	0	0	0	0	8	5.00
Risk Analysis	0	0	0	0	8	5.00
Due Diligence	0	0	0	0	8	5.00
Creating Synergies	0	0	0	2	6	4.75
Strategic Fit	0	1	0	3	4	4.25
Amalgamation of firms	0	0	8	0	0	3.00
Types of M&A’s	3	0	3	1	1	2.63
Company Consolidation	3	1	2	1	1	2.50
Managing Management	3	2	1	1	1	2.38
Organisational Culture	4	0	2	1	1	2.38

The results from Table 3 suggest that for the financial advisors the formulation of strategy and the ten key success factors which were tested differ in their importance for individual companies in the sample. All of the tested success factors are considered relevant for the acquisition performance.

Table 4: Key factors in decreasing order according to average grades

Construction Executives: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
Formulation of Strategy	0	0	0	4	4	4.50
M&A Profile						
Risk Analysis	0	0	0	0	8	5.00
Due Diligence	0	0	0	0	8	5.00
Creating Synergies	0	0	0	1	7	4.88
Strategic Fit	0	0	0	2	6	4.75
Company Consolidation	0	0	1	1	6	4.63
Types of M&A's	0	0	1	2	5	4.50
Target Assessment	0	0	4	1	3	3.88
Managing Management	2	0	1	3	2	3.38
Amalgamation of firms	0	0	8	0	0	3.00
Organisational Culture	4	0	1	2	1	2.50

The results from Table 4 suggest that for the construction executives the formulation of strategy and the ten key success factors which were tested differ in their importance for individual companies in the sample. All of the tested success factors are considered relevant for the acquisition performance.

5.2 INTERPRETATION OF RESULTS

Formulation of a Mergers and Acquisitions Strategy

Bertoncelj and Kovač (2007) explain that in the current economic and business environment, executives have a wide range of strategic alternatives for inorganic growth at their disposal. One of the most important avenues for growth is either a successful merger or acquisition. According to Bertoncelj and Kovač (2007) the pace of growth via mergers and acquisitions by corporate organisations have accelerated and the volume of deals has risen to unprecedented levels. “An environment of sustained economic growth and rising stock prices facilitated transactions” (Weston and Weaver, 2001).

However, Bruner (2004) states that organisations should not see mergers and acquisitions as an easy path to riches or career advancement. In fact, many organisations do not have other alternatives and make use of mergers and acquisitions to respond to changing economic and environmental conditions. Within the research conducted by Carleton and Lineberry (2004) it has clearly been realised that mergers and acquisitions are the growth strategy of choice even though most organisations have no clear strategic map that they follow.

Financial Advisors

Financial Advisors: Formulation of Strategy **Not important at all to Most important**						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
Formulation of Strategy	2	0	0	2	4	3.75

Figure 1: Formulation of Strategy - Financial Advisors Results

Six respondents in the current study agreed that formulation of a merger and acquisition strategy is important and that their respective organisations in actual fact follow an explicit M&A strategy when advising construction companies. FA3 and FA7 explained that their main priority was to advise clients on the financial aspects of such deals, which meant that they did not follow an explicit merger and acquisition strategy. Both, FA3 and FA7 did however note that even though they do not focus on such a strategy they felt that it was very important and emphasised the need for alignment between corporate strategy and M&A strategy. FA1, FA2 and FA4 lamented that they did not always link their M&A strategy with their business plan. For example, FA2 explained *‘we as bankers have had a history of conducting M&A deals without linking the mergers and acquisitions strategy to that of our business unit’s strategy or to the organisational strategy of our clients in the construction industry as well as in other industries”.*

At the time of their separate interviews, FA5, FA6 and FA8 were in the process of advising clients in merger and acquisition deals and they were undertaking more focused, detailed strategic mergers and acquisitions planning processes which were in line with their own and their clients’ business plans. As FA5 stated ‘*in the past we have been working together with our clients and the deals have been transaction driven; now our clients’ deals have become more driven by strategic merit’.*

FA8 had a clear alignment between their corporate or business unit’s strategy and the mergers and acquisitions strategy. FA8 indicated that ‘*our M&A strategy for our business unit and our client, becomes one and the same with our clients’ corporate strategy, well almost’.*

Similarly, the mergers and acquisitions strategy adopted by FA6 was closely aligned with their business units’ strategic plan and their clients’ corporate strategy, in that it intended to identify and fill strategic gaps. FA6 emphasised how mergers and acquisitions were of great importance to growing market share in emerging markets ‘*through successful mergers and acquisitions our clients in the construction industry will be able to achieve substantial growth in emerging markets, Africa, China and India’.* FA6 also identified mergers and acquisitions as a strategic decision which construction companies can utilise to quickly position themselves for changes that could occur in the economic environment as well as construction sector.

FA3 noted that mergers and acquisitions are usually considered only as a means to obtain strategic objectives. He stated *‘I find that in most merger and acquisition deals that I have advised clients in the construction sector, mergers and acquisitions are not a main focus of their strategic planning process, but clients rather see mergers and acquisitions as a way of addressing certain issues or achieving objectives’.*

Construction Executives

Construction Executives: Formulation of Strategy Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
Formulation of Strategy	0	0	0	4	4	4.50

Figure 2: Formulation of Strategy – Construction Executives Results

All the respondents in the current study agreed that it is important to have a merger and acquisition strategy and all of them have and follow an explicit mergers and acquisitions strategy when these transactions are taking place. However, CE2 and CE8 both felt that even though mergers and acquisition strategies are important it is crucial to understand that a mergers and acquisitions strategy is just one of several means through which to implement and achieve future organisational growth and to reach the organisations future strategic objectives.

Further to the above mentioned point, all the construction executives agreed that it is crucial to have a solid strategic business plan first and once this business plan is in place, then a merger and acquisition strategy should be formulated according to the goal stipulated in the strategic business plan. CE2, CE3, CE6 and CE8 further elaborated on the fact that it is crucial to have a solid strategic plan and then explained that organisations need to be clear of what the role of the M&A deal is to play in their plan, rather than just doing the deal for the sake of it. CE6 stated '*if there is no alignment between the major factors of the corporate strategic plan and the mergers and acquisitions strategic plan it will lead to confusion as to the reason for taking part in such a transaction. This in turn could destroy the potential outcome of a successful mergers and acquisitions transaction'*.

During the interview process CE4 and CE5 stated that the objectives of the merger and acquisition should inform all the crucial decisions and be used to measure the future success of the M&A transaction. The objective-setting process for the M&A must therefore be taken very seriously in order to ensure the long-term success and effectiveness of the future partnership between the acquiring and acquired organisation.

Finally CE1, CE2, CE4 and CE7 all concluded that the use of an explicit M&A strategy or profile by itself is not necessarily a guarantee that the transaction will be a success. Rather, CE7 highlighted the importance '*it is indicative that the company in question takes care to plan the acquisition process carefully, that the acquisition is part of a preconceived, planned business strategy and not simply an opportunistic acquisition of an apparent "Bargain"'.*

Becker-Blease et al. (2008) demonstrated conclusively that companies which planned their merger and acquisition deals and at the same time aligned the M&A strategy to that of their organisational strategy performed better than those that did not.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to the formulation of a M&A Strategy

It is interesting to note that the present study identified a difference in opinions between the Financial Advisors and the Construction Executives when it came to discussing the formulation of the merger and acquisition strategy. FA3 and FA7 clearly stated that they were in the financial industry purely to advise clients who are in a M&A transaction to make a profit and did not care for a M&A strategy. FA7 indicated '*construction companies need to sort out their own M&A strategy as this is not the primary business task of a financial advisor. Our task as financial advisors is to finance the deal once the client has done all the research and homework. We don't care about a mergers and acquisitions strategy*'.

On the other hand all of the construction executives felt and were convinced that a merger and acquisition strategy must be followed in order to achieve a successful future transaction. CE1 to CE5 all were of the opinion that financial advisors did not really add any value to their M&A strategies and transactions and the advisors mostly came up with reasons why a merger and acquisition transaction should not be undertaken. CE1 and CE8 both felt that it is much easier to follow a merger and acquisition strategy without the use or advice of a financial advisor.

Conclusion

There was a divergence of opinion on the value of a merger and acquisition strategy. More than half the participants interviewed in this study felt that it is of great importance to have and to follow an explicit mergers and acquisitions strategy when these transactions are taking place. All of the respondents felt that the most important factor is that of experience in undertaking a M&A deal. They all agreed on the fact that it was important to have experienced leaders which could guide and lead the entire merger and acquisition process and who at the same time can employ a flexible, yet defined framework.

Interestingly, the respondents who did not feel that there is a need to follow an explicit merger and acquisition strategy also felt that organisations which attempted to capitalise on past experiences would be making a huge mistake as every merger and acquisition deal brings with it new challenges and complications. FA2 clarified that the constant change in circumstances of mergers and acquisitions will mean that past deals and the experiences gained from those deals do not generalise across situations. For example, FA6 agreed that experience did not offer any benefit and stated, '*having done one mergers or acquisitions deal doesn't make you an expert, or any better than others who are also taking part in such deals. The risks involved in M&A deals will always differ, the businesses and types of transactions will always be different…you can have the best system in the world but it doesn't ensure success and it doesn't make the deal any easier to do'.*

5.3 MERGERS AND ACQUISITIONS PROFILE

Risk Analysis

(Proposition 1: Detailed risk analysis (Country risk/ Political risk, economic risk and financial risk) is a key success factor.)

According to Meschi and Riccio (2007) there are two types of risks that have to be considered before an international merger or acquisition can take place, these are: Country risk and Financial risk. They explain that there are inherent tensions that cannot be overlooked when M&As are conducted within countries with high economic and political uncertainty.

Also, when engaging in mergers and acquisitions, it is important that organisations attempt to consider all the financial risks which could be involved. The following two factors came out of the discussions with both groups (Financial advisors and Construction Executives):

- Overestimating or underestimating the value of the target organisation;
- The choice of transaction methods, whether payment will be in cash, leverage payment or common stock payment.

The research of Yan and Li (2009) agrees with the two points above and further highlights that it is important to examine these two components as the whole process of the merger and acquisition analysis will change if these important factors are not properly examined and focused on before any deals actually take place.

The combined views of the Financial Advisors and Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
M&A Profile						
Risk Analysis	0	0	0	0	8	5.00

Figure 3: Risk Analysis as a success factor - Financial Advisors Results

Construction Executives: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses			**Averages**
			(n = 8)			
M&A Profile						
Risk Analysis	0	0	0	0	8	5.00

Figure 4: Risk Analysis as a success factor – Construction Executives Results

Country risk and political risk

At the time of the interviews all of the Financial Advisors and Construction Executives notably agreed that risk analysis is a very important factor when the analysis of a mergers and acquisitions transaction is taking place. FA1 through FA6 and all of the Construction Executives all explained in their own words that caution has to be taken when possible dealings are to take place with developing countries.

The issue and possibility of a country's economic and political deterioration will cause major environmental uncertainty. FA8, CE1, CE3 and CE4 agreed on this point and further explained that this type of risk will have a major impact on the balance of the relationship between both of the partners involved. This in turn could affect the survival of the newly formed organisation if such a transaction is to be undertaken.

FA6 to FA8 and CE5 commented on the above issue of possible government intervention and the possibility that a developing government can forbid foreign companies to merge with local companies. CE5 stated '*developing countries' local governments have the power to limit inward merger and acquisition transactions taking place into their country, this will in turn get in the way of foreign direct investment'*.

FA1 felt that out of all the key factors risk analysis is the most important factor. FA1 consistently noted that macroeconomic factors are very important to analyse as these factors could have a negative impact on demand and consumption in emerging countries. FA1 and FA2 were both very adamant about the issue that if a country's economy is unstable it is a definitive reason not to acquire or merge together with an organisation which main business practices are located within such a volatile country. CE1 also noted '*such transactions could only have an unfavourable outcome for both parties involved in the M&A transaction, but the acquiring company stand to lose way more than the local company'*.

FA3 explained that these economic and political problems will be the cause for market inefficiencies and in turn will prove detrimental for this important sector of the economy. FA7 further stipulated '*merger and acquisition transactions form part of an important and large sector of the entire economy, if a large organisation is merging with a company in a volatile country and the transaction fails, the acquiring companies country could be held back economically by the difficulty in conducting such a corporate M&A*.'

From a political point of view FA2 and FA5 indicated that high political risk will have a direct impact on taxation or expropriation by a country which in turn will have a direct negative impact on merger and acquisition inflows. Finally, FA1 stated '*organisations which are taking part in M&A deals with companies in high risk countries can expect to have negative financial results with an increase in economic and political risk*'.

Financial risk

Yan and Li (2009) stated within their research that organisations have to take various financial risks into consideration. All of the financial advisors agreed with Yan and Li's statement and added that the return of an investment should clearly be considered when evaluations are being completed. FA1 through FA6 specified that in their experiences with merger and acquisition deals the least successful companies were the ones who did not specify in their strategy what return of investment they required.

FA2, FA5 and FA6 found that on virtually every transaction which they advised clients the planners outperformed the non-planners. In the words of CE2 '*not only* *did we do better on average than our competitors due to the fact that our planning is a very important part of our strategy, we feel we performed more predictably than the non- planners*. *Thus, the planners appear to reduce their financial risk and uncertainty in the outcome of the acquisition'*.

The choice of transaction methods

The authors Yan and Li (2009) listed three methods of payment for M&A deals: Leverage payment, cash method, and common stock payment. According to them each of these methods of payment has to be carefully considered before any deals are conducted.

Both groups (Financial Advisors and Construction Executives) felt that the method used to make payment in merger and acquisition transactions are cash, stock, and debt payments. CE5 clearly felt that '*cash is king – 82percent of all our merger and acquisition deals have been cash transactions, ten per cent were stock only and 8 per cent were a combination or as we like to call it hybrids'*.

According to the financial advisors the form of payment will depend on the size of the transaction – in large transactions or major deals clients are advised to make use of stock payment. In M&A deals where large organisations are competing for a smaller organisation, the financial advisors advise their clients to make use of cash payment if it is possible. FA1 and FA2 together with CE1 and CE8 stipulated that the form of payment used to finance such a transaction will vary with each and every new economic cycle. Bruner (2004) stated that changes in interest rates and the stock prices of organisations are strongly associated with the changes in M&A deal design over an extensive period.

CE3 suggested that the returns to their target shareholders were substantially higher for the cash transaction deals that they completed compared to the stock deals that have taken place during the last five years. CE1 and CE2 both mentioned that their shareholders were rather positive when it came to cash deals. In some cases CE2 noted that his shareholders were significantly more positive for cash transactions taking place and significantly more negative for deals to be financed via stock payment.

FA3 stipulated that most acquiring companies within the construction industry have displayed a pecking order of firstly funding their merger and acquisition deals through retention of profits, secondly through created bank debt, and finally through the issuance of new stock. In other words, as clearly stated by FA3 '*construction companies have been using internal sources of capital before going to the capital market'*! FA1 referred to a more optimal capital structure '*construction companies should firstly aim to maximise shareholder value; they should aim to lower the weighted average cost of capital and then try to increase their organisations value. This should be the primary goal of any mergers and acquisitions transaction'*.

All the construction executives were of the same opinion that if they were to use leverage payments as a method to finance their merger and acquisition transactions, they would need to rely on funds received from loans to fund their various other transactions. In order for this method to be successful, it is very important that their organisations have stable cash flows in order to repay their loans; otherwise each of these companies will end up in bankruptcy.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to risk analysis

It is clear from the various interviews with the financial advisors and construction executives that they all feel that risk analysis is a vital and key component to any merger and acquisition strategy. Even though some respondents did not follow a specific strategy when these types of transactions were conducted, all of the respondents do in fact analyse the various risks involved and then take actions according to what their findings are.

5.3.4 Conclusion

It has become clear in business practices and merger and acquisition transactions today that knowledge is a new resource alongside traditional ones – land, capital, labour. The analysis of various risks (country, political and financial as well as any other risk that can pose a threat) is fast becoming a vital replacement of other resources. Companies that take part in M&A transactions without undertaking an appropriate risk analysis will definitely set themselves up for future M&A failure. In the words of CE1 '*knowing the risks involved and reacting to possible dangers before they actually occur can be the deciding factor between success and failure'*.

5.4 TYPES OF M&A'S

(Proposition 2: Determining the appropriate type of M&A deal is a key success factor.)

Within the research of McDonald, Coulthard and de Lange (2005) it stated that one in every three C.E.Os. interviewed did not have a clear strategic motivation for taking part in a mergers or acquisitions transaction. They realised that The C.E.Os. did not understand the contribution that the M&A would make to their organisations long-term strategic future.

C.E.Os. are under tremendous pressure to use their organisations excess cash and increase earnings with the end result being that their organisations end up merging with or acquiring another organisation even if it is not an appropriate strategy. According to Yan and Li (2009) these types of organisations should look at M&A possibilities as a strategic step rather than using up their excess cash for no apparent reason.

In order for the organisations to make appropriate strategic decisions they would have to know what it is they are looking for in acquiring or merging together with another organisation and at the same time understand which types of mergers and acquisitions exist in order for them to make appropriate strategic decisions.

Financial Advisors

Financial Advisors: : Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
M&A Profile						
Types of M&A’s	3	0	3	1	1	2.63

Figure 5: Types of M&A’s as a success factor – Financial Advisors Results

There are different types of mergers and acquisitions that should be researched before an organisation can partake in such a deal. Within the interviews with the financial advisors it was realised that they are not really concerned with the type of transaction that is going to take place, be it a vertical or horizontal merger, a conglomerate, etc. What they are interested in, as FA1 aptly explained, is whether the organisation is going to make use of an IPO, leverage buyout or a hostile take-over.

FA2, FA3 and FA4 all agreed that they are more interested in how the organisation is going to finance the deal and not in whether the deal adds value to the structure of the organisation. FA3 stated ‘*construction companies know what they need to get out of a transaction, whether it is to acquire a cement plantation to produce their own cement and at the same time to cut cost or acquiring an organisation with an ideal and potential customer base. We, as financial advisors are there to advise the clients when it comes to raising capital as in an IPO or to advise our clients on leverage buy-outs’*.

All of the financial advisors felt that with each M&A transaction which they advised on, the transactions brought new capabilities to their clients, thereby broadening the contribution of the financial institutions to their customers. These new capabilities will help their clients to create economies of scope, which would increase revenue for each of their clients as well as for them as financial institutions. FA7 explained that their clients focus on what is needed to broaden their existing product lines. He further stated that while the valuation of the revenue-enhancing synergies are not calculated and focused on by them as advisors, special care will be taken to ensure that the target acquisition is accurately valued and at the same time they will ensure that their clients do not pay more than the target's stand-alone value.

Construction Executives

Construction Executives: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Types of M&A's	0	0	1	2	5	4.50

Figure 6: Types of M&A's as a success factor – Construction Executives Results

The construction executives on the other hand were more focused on the types of mergers and acquisitions than the financial advisors were. CE1 through CE3 and CE6 and CE7 all felt that the type of M&A transaction, if conducted in the appropriate manner, will provide their organisations with the potential to achieve greater economies of scale and at the same time will differentiate them from their competitors based on the differentiation advantage.

In the case of CE2 he explained that if his organisation takes over the equipment to be used in the production of cement, an industry that is vertically related to the construction industry, they will be able to produce cement at a much lower cost and therefore will be able to coordinate their operations more efficiently. This in turn will help them to deliver results much quicker on a construction project than their competitors who do not have the same facilities or capabilities.

As for the types of financing methods to be used as per the construction executives, the majority felt that they did not specialise in this area and they would therefore acquire the knowledge and expertise of the financial advisors to advise them on transactions such as IPO's. CE1 stated '*an initial public offering for instance is not our area of expertise. We specialise in the building of buildings and other construction projects such as the Gautrain project. The financial institutions will therefore be approached when we are not going to make use of cash to purchase another organisation'*.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to the types of M&A transactions

It can be seen from the results above that there is a clear distinction on how the various respondents perceived the different types of merger and acquisition transactions. The financial advisors were clearly focused on the financing of such deals, on making use of IPO's or leverage buy-outs and were of the opinion that it was the construction executives responsibility to understand their business and to know what they needed from a merger and acquisition transaction.

The construction executives on the other hand felt that the financial institutions and their advisors were too focused on the method of financing and not on really advising their clients on the various transaction which were being looked at by them. CE8 highlighted '*we as construction companies see an opportunity for future growth when we look at a specific deal, a lot of the times it comes down to what do we want to do with our business, and passion as well as financial gain play major roles in the decisions we take'*.

Conclusion

A clear merger and acquisition plan together with a thorough knowledge of which types of merger and acquisition transactions exist needs to be followed by the construction executives as this will surely improve the probability to fully realise the revenue-enhancing synergies of merger and acquisition transactions. Together with a knowledge of the various types of M&A methods it is advised that construction companies and financial institutions work more closely together on such transactions as it will cancel out any gaps that might exist in both the financial advisors and construction companies transaction plans.

5.5 TARGET ASSESSMENT

(Proposition 3: Assessing the target company is a key success factor.)

As per Eisenhardt and Graebner (2007) organisations should view the assessment of the target organisation as the first step in the merger and acquisition strategic process. It is necessary for the acquiring organisation to make a realistic assessment of the potential value of the potential organisation that they are targeting. Eisenhardt and Graebner (2007) further stated that in order for the bidding organisation to achieve the appropriate assessment, it has to be able to evaluate the impact that the purchase price and the strategic target will have on the future of the integrated organisation.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
M&A Profile						
Target Assessment	0	0	0	0	8	5.00

Figure 7: Target Assessment as a success factor - Financial Advisors Results

Valuation of the target organisation

FA1 to FA3 and FA7 suggested that there is a great success rate when organisations make use of a formal evaluation model as this could assist in the correct evaluation and guide the target firm's price which the acquiring firm would be willing to pay for the acquisition. One of the primary reasons for an acquisition failure as stated by FA1 is paying too much for an acquisition. The reason for this is that organisations tend to only do rough estimations of the costs and the executives where more focused on the adequacy of accounting procedures and acceptability of audit results.

FA1 through FA8 all discussed the most common method used in all mergers and acquisitions to evaluate the target company, the discounted cash flow (DCF) method. According to FA2 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 should therefore be predetermined. As FA8 explains '*the DCF is mainly used as a sanity check*'. In addition to FA8's statement, FA4 noted that in addition to the DCF a multitude of models are being used to ensure confidence with the value such as earnings before interest tax and depreciation and amortisation (EBITDA) multiple, various multiple ratios such as earnings before interest and tax to EBITDA and the price earnings ratio.

According to FA1, FA2 and FA7 the approach of valuing the business to determine the price that a company is prepared to pay for the M&A must and should not include value extracted through synergies. As per FA1 *'the principle we follow is to advise our clients that they do not pay for value that they bring into the transaction'*.

Construction Executives

Construction Executives: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
M&A Profile						
Target Assessment	0	0	4	1	3	3.88

Figure 8: Target Assessment as a success factor – Construction Executives Results

Within the interviews conducted with the construction executives, CE3 and CE4 clearly confirmed and pointed out that they do not prepare any calculations when it came to the evaluation of the target organisation. In the words of CE4 '*we choose the company we like and if the price is right we buy it. There is no reason to make the transaction any more complicated than it already is'*.

The majority of the construction executives were of the same opinion that calculations and valuations were not as important as the company they are actually looking at. CE8 mentioned in his interview that he was more interested in the business operations of the target organisation. He stated '*the results found in the calculations and valuations are sometimes too negative and can cause the company to not even look at a potential firm. What about the future possibilities that this potential company can bring to our organisation, the opportunity costs, this can't be calculated and in my opinion is often overlooked by financial institutions'*.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to Target Assessment

It has become very clear from the discussions that there is lack of rational evaluation methods and imperfect assessment of the target company on the construction executives' side. As for the financial advisors, they seem to view the evaluation of the potential client as a very important factor in the strategic plan of their construction clients.

An interesting point that stood out was that the financial advisors were of the opinion that the construction executives were not seeing evaluations as an important factor. FA2 stated in his interview '*construction companies' leaders are very arrogant when it comes to acquiring potential organisations. Construction leaders think that they are part of a sector where if they acquire another organisation they will still make a profit. They don't understand that there are certain factors which can't be overlooked, factors that can cause a deal to go hay wire, factors which can only be realised when an appropriate evaluation has been done'.*

Conclusion

Coates IV and Subramanian (2000) realised that the valuation of a target firm was very important for a strategic plan. However they also discussed the importance of the purchase price for an acquisition, a factor which was not really discussed by both the financial advisors and construction executives. The research of Coates IV and Subramanian (2000) confirmed the fact that both parties who are involved in the M&A transaction are usually uncertain what the asking price or the selling price should be. From the research of Coates IV and Subramanian (2000) it is clearly stated that organisations should obtain expert advice and valuations from the financial institutions who advise them in merger and acquisition deals. The construction companies that take valuations of potential clients seriously should potentially see a higher profit with deals that have taken these key factors into consideration.

5.6 STRATEGIC FIT

(Proposition 4: Determining the strategic fit of the organisation is a key success factor.)

Before an organisation can start with a merger and acquisition process, its' first priority should be to establish whether the acquiring firm is in fact a strategic fit. In order to do this the executives of the acquiring company must complete assessments of the organisation that is to be acquired. Once they have received their information and the outcome has been achieved and is seen as positive they can look at developing an appropriate framework to determine whether this merger or acquisition will in the end add value to the strategic plan of the organisation (Rodríguez-Pose and Zademach, 2003).

Rodríguez-Pose and Zademach (2003) explain that organisations have to look at a deal from a strategic (i.e. diversification, innovation, or efficiency), behavioural (i.e. the interaction between management motives and the external environment) and economic (such as synergy, economies of scale, growth or multiple sourcing) point.

Merger and acquisition transactions are very precarious and these types of transactions should be planned thoroughly in order to minimize the various risks involved (Beitel and Schiereck, 2008). Beitel and Schiereck (2008) state that Careful consideration should be taken by acquiring companies who wish to expand in order to grow their organisations further. These organisations should know and understand the strategic fit and how the potential organisation to be acquired can add value to the business in the long run.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Strategic Fit	0	1	0	3	4	4.25

Figure 9: Strategic Fit as a success factor - Financial Advisors Results

The primary reason for looking at a merger and acquisition transaction as stated by the majority of the financial advisors is for future growth. There are organisations in the construction industry that rely almost exclusively on acquisitions for growth and other organisations that see it as a means to either add or create further value. FA4 was of the opinion that the majority of construction companies can be found somewhere in between. For decades, construction organisations have invested heavily in R&D and expanding their operations. FA4 mentioned '*in order for construction companies to grow and stay ahead of their competitors they would have to be able to expand their operations into other areas, therefore growing their services and product portfolios. Internal development is important, but it's not enough to get them to where they actually want to be'*.

Mergers and acquisitions should be seen as methods to bringing to an organisation the innovation that, in the words of FA6, "*is currently found within another organisation.*" But according to FA3 organisations should realise that the main goal of M&A’s are to complement an organisations organic efforts, and not to try and substitute them with these potential business processes. Further to this statement FA8 added that they also provide an excellent way to add new talent to an organisation.

FA1, FA2 and FA6 have extensive experience working together with their clients who are within the construction industry to formulate and create strategic partnerships and alliances. FA6 explains that their department services include the structuring of the transactions, business plan or strategic plan development, financial valuations and modelling, due diligence and legal contract negotiations. As per FA2 ‘*we have assisted our clients in obtaining the correct and appropriate information on the potential companies that are being looked at. For us it is extremely important that our clients know why they want to take part in a mergers or acquisitions deal. We help them understand that a strategic fit is one of the key factors that could make or break their business’*.

FA4 agreed on FA2’s statement above and added *’we, as financial advisors understand the unique issues and challenges that confront mergers and acquisition deals and we often work directly with our clients as well as other advisors in order to find the best possible fits that will almost certainly prove to be successful transactions in the future’*

Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Strategic Fit	0	0	0	2	6	4.75

Figure 10: Strategic Fit as a success factor – Construction Executives Results

CE2 stated that they make use of a corporate operating system, *'it is a system that is on-going, changes regularly and is a planning cycle that creates a strategic plan by which the company is run by. The majority of the time the inorganic growth of our activities, including mergers and acquisitions, is directed via the output of that particular planning process'.*

CE1 stipulated that there must always be a rationale for the M&A to take place, and gave the following example, '*if we're looking to grow or increase the potential of our current business operations, we will then try and focus on the quality of the development team and the fit and completeness of their similar business operations. If our primary goal is to expand our business into new markets, we'll concentrate on attracting the best possible organisation that will emphasize the company's operations, services and overall go-to-market capabilities'.* CE6 also felt that the one decisive factor that applies to every merger and acquisition is the quality of the organisation's people and how they are being managed.

Another benefit of mergers and acquisitions is the ability to integrate technologies and practices across the entire business. CE3 explained his experience in an acquisition, *'we can now combine our organisation's strong capabilities in building construction with an identity as a company with strong engineering services'.*

Comparison on the opinions of the Financial Advisors and Construction Executives relating to Strategic Fit

There were many similarities found in the opinions of the financial advisors and the construction executives on the key factor, strategic fit. Half of the respondents interviewed in this study felt that Strategic Fit of the potential target organisation is very important for the overall success of the transaction. FA7 for instance felt that even though strategic fit is important there were other factors which added more value in the M&A transaction. CE7 stated *'what happened to the days where business was all about having passion for what you are doing? If I want to buy an organisation because I feel the business could be a very big success, I will do it, even if it is not a strategic fit to the organisation. I will make the business work'*.

According to FA7, in his experience he saw that businesses who participated in mergers and acquisitions without the transaction being a strategic fit have mostly failed. It is therefore very important for experienced leaders in the M&A process to make use of flexible, yet defined frameworks. For instance, CE4 felt that with the years he spent in construction and going through the processes of determining whether there is in fact a fit to their organisation, most of their M&A transactions had become successes.

FA1 and CE1 both agreed that a focus has to be placed on determining which operations will be a fit to acquiring organisations as a business operation. It is important to keep in mind according to CE1 the '*sources of value must find a place into the strategic plan of our organisation. We need to identify the need for speed when we are building a bridge or road and more importantly we have to be able to continue to run the business effectively'.*

Conclusion

Interestingly, even though the literature clearly states that organisations need to have a definitive strategic fit to the potential organisation, there were respondents who felt that it is not that important to have a strategic fit, CE5 explained '*businesses are constantly changing and being able to move with markets and enter new markets holds greater potential than the risks that might be involved. If a potential target organisation is not a clear strategic fit, but we are interested in the organisation, we will make it fit!*'

Other respondents interviewed attempted to clarify that a strategic fit is very important, but noted that circumstances of mergers and acquisitions are constantly changing and it would be stupid to generalise across situations.

5.7 DUE DILIGENCE

(Proposition 5: Performing an appropriate due diligence assessment is a key success factor.)

According to Perry and Herd (2004) mergers and acquisitions are becoming more complex every year. It is therefore extremely important that an appropriate due diligence is performed due to the increased difficulty in partaking in mergers and acquisitions and the increase risk involved with these deals. In addition to the research conducted by Perry and Herd (2004), Bertoncelj (2009) researched and realised that due diligence would need to include methods that would be able to support valuations, negotiations, structuring, and post-acquisition planning.

The aim of the due diligence process is to uncover as many risks associated with a specific deal. Bertoncelj (2009) advises managers to make use of insightful due diligence which would include financial, tax, legal, intellectual capital, sales and operations, property, environment, and organisational culture investigations. The information obtained by the due diligence process can then be used in the valuation process in order to formulate an appropriate buy strategy (Perry and Herd, 2004).

The combined views of the Financial Advisors and Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
M&A Profile						
Due Diligence	0	0	0	0	8	5.00

Figure 11: Due Diligence as a success factor - Financial Advisors Results

Construction Executives: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
M&A Profile						
Due Diligence	0	0	0	0	8	5.00

Figure 12: Due Diligence as a success factor – Construction Executives Results

All of the participants in both the financial advisory and construction executive groups identified due diligence as a key factor in mergers and acquisitions. More particularly, the respondents stated clearly that an effective due diligence would require a total assessment of the target company's operations. For example, CE7 divided his company's due diligence process into two parts. Firstly, CE7 felt that an organisation's executives have to understand the risks of the business, and secondly, they have to think through their implementation process. As CE7 stated, '*the real focus is to understand what hidden risks are involved'.*

FA1 offered a seller's perspective regarding due diligence. FA1 suggested that if the construction executives from the potential target company knew that they were being looked at for a potential acquisition they might operate differently. For example, he noted '*the target organisation will be able to carry out a wider range of strategies which in the end could potentially have a more positive impact on their bottom line and profitability'*.

CE7 further indicated '*our executives use due diligence to see the bigger picture and at the same time to get a feel for what's really happening in the potential organisation that we are looking at'. CE8* highlighted the importance of cultural issues that have to be examined during the due diligence process. He discussed how his organisation had merged with another international company and explained that the success was due to the fact that they focused on cultural integration. At the time of the merger, CE8's organisation had 4 relatively large geographic regions. Once the merger had been completed two of the four regions were fully integrated, and the other two regions were kept separate but side by side. CE8 further compared the two organisations and described the culture as very synergistic in certain ways and very similar when they compared the management and employee structure of the two organisations. He stated '*the biggest challenges for organisation who wish to merge is to get the best of both cultures'*.

As noted by FA3 '*due diligence isn't without its pitfalls. It is very important that we perform a very focused strategic due diligence, a due diligence that will get the egos out of the deal'.*

This respondent was concerned that the egos of executives could affect the success of the negotiation process and in turn affect the final outcome. FA3 suggested that the danger lies in the fact that executives all want to be seen as important to the success of such deals, the result of such personality clashes will affect the due diligence process negatively. Similarly, CE4 stated '*we as executives have to make sure that there is no emotion involved, particularly the C.E.O.'s ego. The reason for this is that the future of an organisation is dependent on the vision of its C.E.O. and which direction they will provide'*.

Evidence was also found that construction companies make use of external professionals in the M&A process. An example given by CE2 clearly indicated that they wanted to make sure that the business case was tested on every level and therefore they had been bringing in professionals who have had experiences operating on mergers and acquisitions on the due diligence side. These professionals as stated by CE2 had to be from similar businesses or had to be actively involved in the construction industry in South Africa. A key issue identified by all of the financial advisors interviewed, was the formulation of the 'right team' that is capable of taking the mergers or acquisitions process through to completion.

FA1 indicated that a team must therefore consist of a mixture between internal specialists and external consultants. CE1 noted that a focus of team formulation will smooth the progress to obtain a comprehensive list of due diligence issues and at the same time will devise appropriate responses from the potential organisation. CE1 summarised this approach by stating that 'it *gives an organisation an idea of* *how well the target company is being run and it provides details on what the executives of the target company actually know about the business'.*

Comparison on the opinions of the Financial Advisors and Construction Executives relating to Due Diligence procedures

The combined view from both the financial advisors and the construction executives was that they felt a very important aspect of due diligence is the strategy that will be used that will require the target company's management to prepare a business review which will indicate their opinions on how the organisation will be able to grow and how the two separate organisations could be best brought together. It will provide an opportunity for the parties involved observing employees and management in action to determine which issues do in fact exist and to obtain a cultural fit.

Moreover, performing a proper due diligence is seen by both groups interviewed as the ultimate method to determine whether there is in fact a level of success that could be achieved even if there are any issues identified. CE5's company is an organisation with a '*very strong and distinct due diligence process that is followed by us and the specialist who are included in the screening of the companies. It is one of those facts that if you do a proper due diligence the outcome can be seen potentially as very profitable'.*

Conclusion

Within the due diligence process the biggest component that should be concentrated on is the involvement of the executives of both organisations as well as the specialist and the employees of the two organisations. For instance, FA1 emphasised that *'the involvement of the people is a critical component in the due diligence process, as it is those people who will be able to make the due diligence process work'.* Similarly, CE8 identified the communication between the executives, the specialists and the employees as a vital aspect of a successful due diligence process, '*I haven't seen any due diligence processes that we've done* *that excluded the important parties involved. Due diligence together with the people aspect of managing the process has been our number one priority*'.

Overall the respondents perceived the due diligence process as an essential part of the merger and acquisition investigation. It is seen as an essential requirement even though it was evident that the executives had different opinions in terms of the requirements in a due diligence process.

5.8 ORGANISATIONAL CULTURE

(Proposition 6: Assessing the cultural fit of both organisations is a key success factor.)

Bertoncelj (2009) stipulated in his research that organisations have to realise that organisational culture can be the end-all or be all when it comes to mergers and acquisitions. In the past it was believed that very little could be done to avoid a clash of the two organisational cultures.

Organisations therefore need to understand that in order for the two organisations to integrate successfully, the entire integration process would have to be completed in a such a manner that the end result of the integration process leaves the newly formed organisation with a mutual organisational culture (Breakwell, 2006). According to Bertoncelj (2009) history has shown us that in reality the acquired company automatically has to fall in with the acquiring company's culture and routines. He stated that this was the primary reason why so many newly formed organisations fail as the acquiring organisations culture is forced onto the newly acquired members.

Chen (2008) urged executives, as their first step, to make use of the cultural due diligence process on the acquirer. This will provide the executives with a cultural assessment in a mergers and acquisitions deal. Chen (2008) further advised acquiring companies to make their intentions clear right from the start before any M&A activity is to be performed. Once the potential organisation has been informed of the intentions of the acquiring company, then a cultural due diligence can be performed on the target company.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
		Number of responses (n = 8)				**Averages**
M&A Profile						
Organisational Culture	4	0	2	1	1	2.38

Figure 13: Organisational Culture as a success factor - Financial Advisors Results

From the interviews conducted it was very clear that the financial advisors did not feel that organisational culture should be seen as a key factor to the success of mergers and acquisitions. When the question was asked to FA2, about how he saw organisational culture as a key factor he answered *'we as financial advisors don't care about whether our construction clients are working on a cultural integration plan. We want to know whether we are going to make money from the deal, now! When an organisation is acquiring another organisation they should place their leaders and mangers in the positions available*'.

Out of all of the financial advisors interviewed only FA1 felt that organisational culture was very important. In his opinion, in order for a successful cultural integration to take place an organisation will have to have a very strong leadership foundation. FA1 felt that an organisations culture is a direct reflection of the C.E.O. and his management team and how they can be an example to their staff. He stated '*for each acquisition, it is important to designate a lead cultural integration executive from within our organisation. That executive will be supported by his own small dedicated corporate team which will be in charge of developing, executing and communicating the cultural values and at the same time integrating the cultural practices'*.

FA3 to FA6 were all under the impression that it is not possible to handle the negative impact that often occurs with merger and acquisition transactions. Factors that are always problematic were given such as definitive layoffs, which in turn cause a declining morale amongst employees, which in the end cause the key employees to leave the organisation.

FA7 explained that it would be easier for construction companies to place their own people in the proper positions when it came to implementing an organisational cultural. He suggested the following '*construction executives should assign integration roles early in the mergers and acquisitions transaction, the acquiring organisation's leadership should be tied into both their strategic and tactical objectives. Integration should be seen as important not whether people in the new firm can work well together. The integration process then needs to be reviewed on monthly, sometimes even a weekly basis*'.

Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Organisational Culture	4	0	1	2	1	2.50

Figure 14: Organisational Culture as a success factor – Construction Executives Results

The view points of the construction executives interviewed were very similar to those view points of the financial advisors. The majority of the construction executives also felt that organisational culture was not important when it came to mergers and acquisitions.

CE7 pointed out that the cultural difference at times can be so large that it will constantly cause vigorous arguments. These arguments, together with the feeling that employees will lose their jobs, cause unnecessary friction. Added to this are the cost of implementing cultural programs; and these costs can be avoided if they fill the positions with their own people.

CE8 however had almost the complete opposite opinion to those opinions of the other construction executives. The first step according to him is to communicate his company's strategy for the merger or acquisition up front in order to create a common vision with the potential target firm. The acquiring organisation's executives need to clarify that the combined organisation will be able to be more successful in addressing defined market opportunities.

By creating a common vision both organisations can be more successful working together than separately. He highlighted the following '*once we have started with the negotiations and the target company is clear of the potential success of the future combined organisation and it appears to us that the people in the company we're looking at, don't believe in value propositions, the merger or acquisition will have little chance of success. In this case it is then in our best interest to end any further discussions'*. CE5 and CE6 agreed that prior to announcing a merger or acquisition it is in the organisation's best interest to meet with the leadership team of the target company. Within these meetings management have to review job positions available and then jointly decide who would be the best employees for the positions available.

A problem as per CE6 is that once the announcement has been made, management will have to sit down with as many employees as possible to discuss whether they will make employment offers. Those employees who will not be receiving future job offers could become like a 'virus' that hits the organisation and all of the employees could become negative towards the management. CE6 stated '*once a negative feeling has been created within people, trust is lost and employees will negatively affect those who still stay appointed'.* Therefore, as per CE5 *'it is better to make use of your own employees to fill the gaps in the new organisation'.*

Comparison on the opinions of the Financial Advisors and Construction Executives relating to Organisational Culture

The viewpoints were not very positive when it came to organisational culture as a key success factor in mergers and acquisitions. Both the financial advisors and the construction executive groups felt that it would be easier to fill new positions with their own employees. CE1 clearly stated that he was not interested in the employees but more in the potential operations which he could acquire.

FA1 and CE8 had similar opinions and totally disagreed with their other industry professionals. FA1's argument was as follows '*organisations have to focus on organisational culture in order for the newly formed organisation to be successful. Early on you need to engage openly and directly with your future employees and let each of them know that they have an equal and fair shot at available positions*'. CE8 further elaborated '*it is very important to have early and regular communication with your future employees. Once they are part of the newly formed organisation, cultural programs have to be employed to make the transition a lot easier for them*'.

Conclusion

The employees which create a corporate culture of an organisation have a major role to play in merger and acquisition transactions. Based on the findings of the literature and the interviews conducted, it is very clear that in the corporate world organisations do not view organisational culture as a key factor to the success of M&A transactions. It therefore confirms the facts stated in the literature which clearly states that the lack of corporate culture focus is a definitive factor for merger and acquisition failure.

Construction executives as well as financial advisors need to understand that they are always dealing with the human factor and they need to set the quality bar high for creating effective organisational cultures. These potential employees, if treated correctly, could hold values of innovation, collaboration and integrity, and this in turn will reinforce an organisations cultural norms.

5.9 CREATING SYNERGIES

(Proposition 7: Determining organisational synergies is a key success factor.)

According to Hoberg and Phillips (2009) executives have to familiarise themselves with their core competencies and values of their organisations. It would be in the best interest of the corporate executives to research and identify which business ideas and concepts will be able to add value and once they have done this to map them in order of importance. According to their findings and the knowledge of their core competencies they should then select the organisations which will add value to their existing organisations business model.

Synergies are defined as those elements that create value where the whole is greater than the sum of the individual parts (Bertoncelj and Kovač, 2007). Another definition as given by Bruner (2004) states that synergies need to create value for shareholders by producing additional benefits from a merger which would otherwise not have been achieved by the organisation on its own.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
M&A Profile						
Creating Synergies	0	0	0	2	6	4.75

Figure 15: Creating Synergies as a success factor - Financial Advisors Results

Within the interviews, it was realised that synergies were seen as an important key factor. Even though two of the respondents do not rate it as a 5 on the above scale they still felt that synergies must always be considered before organisations are being looked at for potential mergers or acquisitions. FA1 through to FA4 and FA6 and FA7 agreed that the motives behind the transaction have to be accompanied by a certain degree of relatedness between the two organisations.

These motives will differ from organisation to organisation but they could include achieving operating synergies in a construction company's building operations, or within their marketing departments, managerial expertise and within various other departments and operations. Further to this, FA2 suggested that another reason for organisations to merge is to achieve financial synergies. He gave the following examples of financial synergies '*organisations would like to obtain reduction, and this is done through the diversification process and by accessing financial terms which will be more favourable to the organisation'*.

FA1 explained '*in order for an organisation to achieve synergy it would have to select an organisation which operations are in line with the acquiring company's operations. It will then depend on the type of M&A transaction as well as the reasons for the transaction to take place. Once this has been decided upon, the acquiring organisation would have to choose an implementation plan*.' FA1 elaborated that this type of strategy will help the organisation to determine how they will be able to combine the systems and get the employees to work together.

Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
M&A Profile						
Creating Synergies	0	0	0	1	7	4.88

Figure 16: Creating Synergies as a success factor – Construction Executives Results

The construction executives were all of the opinion that synergies were an important factor to create a successful business transaction. CE1 agreed with the financial advisors that financial synergy is definitely a goal to be obtained with a merger or acquisition process. However, he argued that by being in the construction environment, the goal for his organisation is more about achieving the integration process of separate operations of the two organisations and there is usually very minimal contact with the different organisations' employees.

CE8 talked about a very interesting point '*during the last couple of years the construction industry has seen many merger and acquisition transactions being less successful due to ineffective synergies'*. He noted that some of the reasons for the problematic synergies were not ineffective operations, and that it had more to do with the clash in managerial styles and compensation systems. CE8 found that there has been major resistance by both organisations' executives to any changes which would need to happen in the business structures. CE4 and CE5 suggested that mergers and acquisitions have been struggling due to the various differences in managerial styles, the employees' unwillingness for change and the lack of acceptance of the other company's practices. These are all being seen by executives as potential obstacles for desired synergies.

CE3 felt that in order for organisations to cancel out any differences of opinions relating to synergies both organisations need to focus particularly on the end goal in mind. On both sides of the transaction the executives need to clarify what they feel is of importance to them, their operations and to their staff. CE6 agreed and said that the companies need to identify how they are going to implement the various structures and the executives also have to indicate how they are going to aim for and implement a successful synergy strategy.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to creating synergies

During the interviews, the opinions of the financial advisors and the construction executives seem to agree on the fact that synergy creation is an important key factor for the success of a merger or acquisition transaction. Where the differences occurred was where the financial advisors were seen as being more focused on financial synergy and the construction executives were more focused on operational synergy and the factors which caused synergy creation to fail. The various opinions included different synergies and how they would create value but it seemed that the various executives from the different sectors (Financial and Construction) seem to only focus on the issues which relate to the type of industries that they find themselves in.

Even though the financial advisors were correct in explaining the importance of financial synergies they would have to broaden their mind-sets and also advise their construction clients on the other synergies which can be created. Similarly, the construction executives were correct in explaining the importance of their potential synergy creations, but they need to realise that the opinions of the financial advisors on financial synergies will definitely add value to their future M&A transactions.

Conclusion

Within the research and interviews conducted on synergy creation it is clear that organisations understand that they have to look at the value of synergies. An important aspect which stood out was the human factor which was noted by CE7 *'in my own experience, I realised that as the degree of relatedness in organisations decreases executives will not be as willing to take part in the combined business departments*'. Therefore, the executives of the acquiring organisation will expect the acquired organisation to implement the changes, and they will then be held responsible to get their departments operations to align with the acquiring organisations operations.

On the other hand, FA2 indicated that when the company's operations are related the acquiring organisation usually tries to force their culture and operations onto the acquired company. The reason for this as per CE8 is that they know the market, the business and risks and they therefore try to reduce any duplication which could occur in order to achieve economies of scale.

5.10 AMALGAMATION OF FIRMS

(Proposition 8: Amalgamation of firms is a key success factor.)

According to Cartwright and Schoenberg (2006) amalgamation is another key factor which should be incorporate into the mergers and acquisitions strategy. An important factor which they discussed in their research was pre-acquisition strategy which consisted of deciding on a merging of equals or buying a subsidiary.

The combined views of the Financial Advisors and Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Amalgamation of firms	0	0	8	0	0	3.00

Figure 17: Amalgamation of Firms as a success factor - Financial Advisors Results

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Amalgamation of firms	0	0	8	0	0	3.00

Figure 18: Amalgamation of Firms as a success factor – Construction Executives Results

Comparison on the opinions of the Financial Advisors and Construction Executives relating to amalgamation of firms

It was very interesting to hear that all of the financial advisors and construction executives felt that amalgamation of firms was an important factor for the success of a mergers and acquisitions strategy. However, they all clearly agreed on the fact that it should not be seen as a key success factor by itself, but it should rather be treated as another deciding element in the decision on whether an organisation is a strategic fit or not. Therefore, the results indicated in figure 17 and 18 are explained by the agreement of the respondents on this factor.

None of the respondents felt it necessary to further discuss amalgamation of firms as a key factor.

Conclusion

The feedback received from the financial advisors and construction executives and the findings within the literature review indicated that there is no relationship found between the different sources on this topic. The respondents were all of the opinion that amalgamation of firms was an important point not to be overlooked, but it should not be seen as a key factor. The literature indicated that it is a very important factor and it should be seen as a key factor.

5.11 MANAGING MANAGEMENT

(Proposition 9: Effectively managing management is a key success factor.)

Human capital as per Zula and Chermack (2007) is an important factor which can affect the success rate of merger and acquisition transactions. In the case of senior management, Williamson (2010) indicated that organisations have the risk of ending up with more than one head of a department. In these situations it is important for the executive board to immediately make the necessary changes and manage their workforce to a more manageable proportion.

Zula and Chermack (2007) suggests that in the case of middle management, supervisors, operations and line staff the best route to follow is to declare jobs vacant and to request internal applications within the first month of the M&A completion.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
	Number of responses (n = 8)					**Averages**
M&A Profile						
Managing Management	3	2	1	1	1	2.38

Figure 19: Managing Management as a success factor - Financial Advisors Results

There was a divergence of opinions on the point of managing management when it came to mergers and acquisitions. FA3, FA5 and FA6 all felt that managing management was not an important factor and no further discussion took place.

As for FA1, in his opinion managing management was a very important factor which could not be overlooked by the construction executives. He stated '*managing management and cultural differences go hand in hand, the only big difference is that when you are dealing with the new management of the newly combined organisation you have to tread carefully as the management is the backbone of the organisation'*. FA1 explained that when mergers and acquisitions take place, an organisation will end up with more than one manager who is responsible for a department or project. Senior executives need to be able to handle such a situation.

FA2 argued the fact that when they advise their construction clients in a mergers and acquisitions transaction they, as financial advisors, do not concentrate on this factor. As per FA2 *'it is up to our clients' executive board to make the appropriate* *managerial decisions. They have to know how to manage their business and their newly acquired staff'*. However, FA2 mentioned that managing management should be seen as an important factor and he understood that if this step in the M&A process was neglected it could hurt the loyalty factor which always needs to be considered when dealing with employees.

FA4 and FA7 agreed with FA1 on the fact that managing management was an important success factor however their opinions were a bit different to the opinion of FA1. FA4 suggested that the construction companies need to move their management into managerial positions within the newly formed organisation. Once this has been done, they can then strategically 'get rid' of the other company's staff which are not sufficient. FA7 had a similar opinion to that of FA4 but also stated that even though the above mentioned method could work, it is possible through the process to actually loose newly acquired key staff due to the concept of favouritism.

Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses **(n = 8)**			**Averages**
M&A Profile						
Managing Management	2	0	1	3	2	3.38

Figure 20: Managing Management as a success factor – Construction Executives Results

CE1 and CE2 agreed on the fact that they did not see managing management as a key success factor to mergers and acquisitions. They did not make any further comments. CE7 and CE8 both disagreed with CE1 and CE2 and felt that managing management, if done incorrectly, could lead to a loss in precious human capital. CE8 mentioned that during his organisation's last merger they made use of managerial programs, provided by external organisations, to help their current staff and future staff, merge together more effectively. He further elaborated '*our managers are really important to us, especially now with the economic climate and a lack in industry expertise and knowledge. One of these days I would like to retire, and I would like to have the best management in place, who can take over when the current executives are not there anymore'*.

CE4 did not really know whether managing management was a key factor or not. He talked around the fact that managing management is not really important in a mergers and acquisitions transaction because they are supposed to know what role they play in the business. Then on the following point he felt that without the correct management there to run the newly formed organisation, the company would not be able to sustain a successful business.

CE6 was under the impression that managing management needed to fall under cultural differences and he explained that the executives needed the management to manage the cultural issues within the newly formed organisation. He also agreed with CE4's viewpoint of management who needed to understand what their roles are and how they can add internal value to a merger or acquisition without additional management taking place.

CE3 clarified '*it is important for us to firstly appoint the appropriate management before we decide to take part in any M&A deals. We pay a lot of money and spend many man hours training our managers and therefore it would be to our benefit to have our known staff help us take over the target company'*.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to managing management

There was a divergence of opinions within both groups interviewed; however the majority of respondents felt that managing management was not as important as it was stipulated in the literature.

However, respondent FA1 (a financial advisor and mergers and acquisitions lecturer) and respondent CE8 (a C.F.O. and former financial advisor to construction companies) agreed that managing management once the transaction has taken place is a very important key factor. FA1's point of view is that organisations' executives in the construction sector as well as in other sectors think the easiest method is to get rid of the newly acquired organisation's employees. Executives are under the impression that it will cut out any additional costs associated with the training and management of newly acquired employees. FA1 noted that it is in actual fact the very reason for many mergers and acquisitions failing. '*Current staff might not be sufficient in the new tasks at hand and due to favouritism the organisation will place the incorrect management into positions'.*

Conclusion

Comparing the feedback received from the financial advisors and construction executives to the information found within the literature review, it is again interesting to see that that which the academics view as important is not necessarily viewed as important by the different industry professionals.

Two respondents, FA1 and CE8, agreed with the literature that managing management is a key success factor for the success of a mergers and acquisitions transaction. These two respondents were either professionals who had industry experience and theoretical knowledge due to being academics or have been in both industries and advised clients on merger and acquisition deals.

The other respondents have been in their separate industries all their lives and had their way of doing business, and change as per CE2 '*is not something to be considered if it has been working in the past'*.

5.12 COMPANY CONSOLIDATION

(Proposition 10: Company consolidation / post integration is a key success factor.)

McDonald et al. (2005) understood that merger consolidation will be achieved as soon as the company has managed to successfully implement organisational change, achieved appropriate product integration and established a new public profile. McDonald et al. (2005) further urged organisations to understand that the process of integration was especially important for newly formed companies. The merger of two construction companies will only be able to show real profit after a couple of years due to the nature of this industry. It is therefore the integration process that will be the deciding factor for a successful transition.

Financial Advisors

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Company Consolidation	3	1	2	1	1	2.50

Figure 21: Company Consolidation as a success factor - Financial Advisors Results

The respondents had mixed thoughts on whether company consolidation should in actual fact be seen as a key success factor in merger and acquisition transactions. FA2 did not have an opinion on whether company consolidation was important to the success of a merger or acquisition transaction. The question was not clearly answered by FA2 because he felt that there were other factors in mergers and acquisitions that needed to be look at. These factors are discussed under the additional findings chapter.

FA8 clearly stated that company consolidation or in his words, 'post-merger integration' should be seen by the construction executives as a very important, if not the most important factor, in a mergers and acquisitions strategy. Company consolidation as per FA8 is where synergies and expectations are realised or wrecked. He stated '*company consolidation is extremely important to the success of any merger or acquisition taking place*'. Further to this fact FA1 noted that executives need to realise that there are issues that have to be addressed in the post-acquisition phase, and the best place to start is at the bargaining table or during the analytical phase of the M&A transaction. In fact, according to FA3 during his years as a financial advisor in M&A deals he has seen about 53% of all the mergers and acquisitions which took place in SA fail due to unsuccessful company consolidation. FA4 explained how his institution completed a study on post-merger integration / company consolidation and found that when organisations prioritised post-deal integration before the merger and acquisition transaction actually took place they were 13% more likely to be successful in the long run.

In FA1's opinion, company consolidation should be seen as an integration plan which should follow the organisation's business strategy. Business objectives, such as how the organisation is going to improve efficiency, manage the new organisation's various risks and how they are going to create new capabilities should all be clearly stated. According to FA5 once a merger or acquisition has been finalised the executives will have approximately one hundred days to take hold of their new business venture and start obtaining certain benefits.

There were, however, financial advisors who felt that company consolidation was not an important key factor. FA6 and FA7 clearly stated that they were not interested in the post-merger integration plan. FA6 briefly exclaimed '*if the construction companies' executives knew what they were doing during the transaction phase, they wouldn't need a consolidation plan'*.

Construction Executives

Financial Advisors: Importance of Key Success Factors Not important at all to Most important						
	1	**2**	**3**	4	**5**	
			Number of responses (n = 8)			**Averages**
M&A Profile						
Company Consolidation	0	0	1	1	6	4.63

Figure 22: Company Consolidation as a success factor – Construction Executives Results

From the interviews conducted with the construction executives, company consolidation was seen as a very positive point and important key factor in mergers and acquisitions. CE8 highlighted that there are two phases that should be seen as very critical to successful implementation, the planning phase and the execution phase. A detailed consolidation plan has to be prepared during the pre-M&A deal phase.

CE7 agreed with the above statement and elaborated that during the pre-deal phase the executives of both organisations have to come to an agreement on all the important issues, such as which executives will be responsible for running which departments, who is going to be the consolidation leader, as well as employee and management compensation schemes and, which construction sites will remain open and which construction sites will close. Furthermore, decisions will need to be made regarding, how will the organisation retain valuable staff, how the goals of the newly formed organisation will be communicated to staff, and which training programs will be looked at for the personal and professional growth of employees, etc. CE5 suggested that organisations make use of a project management approach which will stipulate the work plans together with their deadlines.

CE1 clarified that even though planning is important during the initial transaction phase it, speed, effective communication and sheer determination is what will make the consolidation phase a success. He further highlighted the importance that executives have to avoid delaying the consolidation phase and not reaching the finish point. In the words of CE4 '*managers can end up not making the appropriate decisions on time with the end result being that productivity can start to decline and the goal of successful company consolidation can be missed'*.

According to CE8, company consolidation is the transformation that needs to take place, and a merger and acquisition should be seen as an on-going make-over which is taking place. As per CE6 '*if you want something in this world that is worth something you need patience and perseverance to get it in the end. It is exactly the way that you should approach a consolidation phase in order for it to be successful in the end'*.

Comparison on the opinions of the Financial Advisors and Construction Executives relating to company consolidation

Apart from three respondents, namely FA2, FA6 and FA7, the rest of the respondents from both groups understood that company consolidation should be seen as a key success factor to mergers and acquisitions. The financial advisors might not have seen it as such an important factor, but the overall feeling from the financial advisors was that company consolidation is a key factor in a M&A strategy.

The construction executives on the other hand clearly agreed that company consolidation was important to them and it became clear that they all make use of a post-integration plan to positively affect the post M&A organisation's business practices.

Conclusion

Based on the findings from the interviews and the literature, it is clear that company consolidation might be one of the biggest reasons why organisations fail in their mergers and acquisitions. In order for companies to achieve future transaction success, the executives have to make company consolidation or post-integration a key focus point in their merger and acquisition strategies.

5.13 CONCLUSION TO INTERPRETATION OF RESULTS

The initial scope of this research was confined to the choice of financial advisors who have dealt with mergers and acquisitions in the construction industry in South Africa and executives from listed construction companies who have taken part in mergers and acquisitions. However, due to the nature of the construction industry and the fact that there are not many listed construction companies in South Africa, the researcher struggled to identify a sufficient sample of listed construction companies. The researcher therefore included a number of construction companies that are not listed, but have dealt with either mergers and acquisitions or joint ventures. These executives were asked the same questions as the listed construction executives.

Each proposition was separately discussed based on the results of the research of the study. The information received from the literature together with the information gathered from the interviews were all taken into consideration. The analysis showed strong support for the key factors which were found in the literature.

The evidence shows that the industry professionals (Financial Advisors and Construction Executives) support the original propositions however there were certain propositions that were rejected by the majority of participants. Further, to the original propositions, the researcher found additional factors that the industry professionals highlighted as important. These factors will be discussed in the additional findings chapter.

6 ADDITIONAL FINDINGS AND RECOMMENDATIONS

6.1 ADDITIONAL FINDINGS

Based on the literature, ten original propositions were created. The financial advisors and construction executives were all interviewed and asked whether their organisations had an explicit mergers and acquisitions strategy which they followed, and if they did they had to rate the importance of the key factors found in the literature. Some of the key factors were either rejected or accepted. During the interviews, additional key factors were identified. The researcher believes that it would be beneficial to the study to include a summary of these findings.

6.1.1 Identifying the reasons for M&A success and failure

According to FA1 and CE8, executives can learn how to be affective in mergers and acquisitions by learning from history and why mergers and acquisitions have either been successful or failures in the past. The majority of respondents felt that identifying the reasons for mergers and acquisitions success and failure should be a key factor in an M&A strategy. The subjective judgements of the financial advisors and construction executives that were interviewed is summarised in the following main points.

- Within the period immediately after the M&A transaction has been finalised, quality management of employees determined the success or failure of the transaction. It is vital that the change in the organisation is properly managed.
- Adequate skills are required by management for the various new tasks at hand. A common mistake made by executives is to underestimate the demands made on management during the consolidation phase.
- CE8 explained how the most successful mergers and acquisitions that he took part in had three characteristics that stood out. Firstly, there was a good relationship between the acquiring company and the acquired company's management. Secondly, the acquiring company had appointed

one of their executives to lead the acquired company. This leading person was responsible for affectively reporting on the relationships between the various key management positions in both organisations. Finally, an effective control system was implemented and constantly monitored and amended to adapt together with the changes of the new organisation.

- Information found in the literature and within the interviews showed a distinct difference in the success rate of organisations which follow a clear strategy for growth and diversification to organisations that only react to possible opportunities to merge with or acquire other organisations. CE2 had gone through mergers and acquisitions in his career and he felt that the reason successful transactions took place was that they as an organisation had followed a superior strategic plan. By following their M&A strategy they could target companies that were a strategic fit and that could add consistent growth to their organisation.
- Another factor that was viewed as important was having acquisition criteria that had to be applied on every deal. If these criteria were not followed it would open up the possibility to conduct deals based on impulses and emotions. By developing a set of criteria as per FA1, organisations will be able to select the appropriate target companies rather than reacting to market sentiment.
- FA8 noted that the successful companies had all made a careful and clear analysis of the merger or acquisition needs, both in the capital investment and management time. The unsuccessful organisations had all made the same mistake of severely underestimating both of these points.
- A common theme throughout the literature and interviews was that an organisation had a greater chance at a successful merger and acquisition deal if the organisation improved its planning of the transactions. CE7 stated '*all highly successful M&A transactions have had the advantage of substantial strategic planning*'.

6.1.2 Learning environment

FA1 and CE6 confirmed the findings in the literature about the learning environment being an important factor for mergers and acquisitions. CE6 explained that acquiring knowledge and using that knowledge appropriately are extremely important when it comes to human capital. According to him the learning environment is slowly becoming more important to organisations than the other assets or resources. FA2 noted that in order for organisations (acquiring and target) to make effective use of knowledge and try new things, both the organisations will have to have strong support systems in place together with sufficient human and structural capital.

CE8 explained how his company made use of specific learning environments to enhance his organisation's learning experience. He elaborated '*now days it's those organisations that are capable of getting its employees and executives to learn quicker from past experiences as well as through education, that will be able to adjust quicker to the changing business environment and in the end reach a competitive advantage'*.

FA6 and FA7 felt that in this modern age organisations should obtain knowledge and information as these two factors are seen as the main sources of an organisation's assets and it should therefore be valued as important for any mergers and acquisitions transaction.

Employees often struggle to adjust to new business systems that are part of the newly formed organisation. Therefore training and guidance by a qualified third party as per CE4 is important to help the employees make an effortless transition.

According to CE7 those organisations that are able to manage the development and learning processes of its employees and executives will achieve a higher learning level and in the end will be able to profit from employee loyalty to the organisation, increase capabilities and efficiency of work. The benefits of having a learning culture will force down the cost of work per employee and at the same time employees will be more satisfied with their working conditions.

6.1.3 Communication

One of the factors not found in the literature but that was discussed by all of the respondents is the key factor, communication. FA1 through FA6 discussed in their own words that without effective, timeous and formal communication between the various parties involved in merger and acquisition deals it will have a detrimental effect on employees and shareholders. Due to a mergers and acquisitions transaction the communication chain becomes longer due to more parties involved and it is therefore even more important that the communication is not neglected.

During CE8's experience with M&A transactions he found that when clients, staff and management start asking questions, most executives were not prepared to answer those questions. What happens then is that they 'shoot from the hip' and this causes uncertainty and confusion with the parties involved. Another definition of uncertainty and confusion as per CE5 is the result of executives who assume that all their stakeholders (staff, clients, shareholders and the target companies stakeholders) are informed of what is currently happening and what the future possibilities for the M&A transaction holds.

FA5 and CE3 agreed that relevant communication needs to take place right from the pre-M&A phase. Due to the complexity of some mergers and acquisitions the relevant stakeholders have to accept and support the various decisions that will have an effect on the future of both organisations involved. CE8 mentioned that the biggest mistake executives can make during a mergers or acquisitions transaction is to keep silent and not to communicate with their stakeholders as their silence will leave a gap open for rumours to occur.

Finally, FA1 clarified that construction executives need to follow the following set of rules to achieve effective communication. The acquiring organisation should not keep any secrets from its stakeholders, it should have no surprises when transactions are being conducted and they should definitely honour any promises that were made by the executives of the organisation.

6.2 RECOMMENDATIONS FOR BUILDING A M&A STRATEGY

The following recommendations are factors that stood out from the literature analysed and the information obtained from the interviews. Some of the following points might not have been listed as propositions and they might be out of the proposition order. In the researcher's opinion the following framework is the best and most sufficient and includes the key factors that stood out from the research conducted. The framework is therefore a summarised list of the key factors in a specific order. In order to achieve the highest level of success in mergers and acquisitions, the construction executives need to follow the order of the factors listed in the framework.

6.3 A FRAMEWORK FOR A MERGER AND ACQUISITION STRATEGY

6.3.1 Understanding what a merger and acquisition strategy is

In order for organisations to build and follow a merger and acquisition strategy the executives would first need to understand that a merger and acquisition strategy is a roadmap which will guide their organisation in its corporate development efforts.

The executives would have to transform their strategic business plan into a list of target acquisition candidates. This plan will provide the organisation with a set framework that will enable them to evaluate potential target companies.

By understanding what the merger and acquisition strategy consists of and what the organisation's plans are for moving forward it would enable all the relevant parties involved to be "on the same page".

6.3.2 Determine Business Plan Drivers

The first step in the merger and acquisition strategic process as per CE8 is to transform the organisation's strategic business plan into a framework that will consists of the organisation’s business drivers and future organisational requirements.

Business Plan Drivers

According to FA1, business plan drivers are determined when construction executives ask themselves the following questions before they take part in a merger and acquisition transaction:

1. Within which markets do we wish to operate?
2. What percentage market share do we wish to obtain in those markets?
3. Which products, operations or key business units do we need?
4. Do we wish to just grow our operations in the South African market or also expand into other geographical areas?
5. Do we have the appropriate staff and experience or do we need to acquire them?
6. What is the culture of the target company, and is there a possibility of a cultural clash that could have an effect on the internal success and management of our business?
7. Do we need to implement a cultural program that will help our current and new employees to merge more fluently together?
8. What is our future financial target?
9. If our competitors were ‘in our shoes’, what would they do?
10. Are we willing to take a risk, and if so, how much risk are we as an organisation willing to take?

Once, an organisation’s executives have honestly answered these questions they will have a very good indication of what they need and what they have to do before they actually start searching for the appropriate company to acquire.

6.3.3 Determine Acquisition Financing Constraints

The second step that executives within the construction sector have to take according to FA1 through to FA6 is to determine that their organisation does in fact have the necessary financial resources to support a merger or acquisition.

Yan and Li (2009) stated that mergers and acquisitions are funded in various ways, leverage payment, cash method, and common stock payment among others. In the words of FA1 '*construction executives have to know and understand what they have in their 'war chest' before they can take the M&A process any further'*. He listed the following as questions that construction executives have to ask themselves about their financial constraints:

1. Do we have a surplus of cash available or are we looking at making use of an available credit facility?
2. What is the value of our available equity?
3. Is it possible for us to raise new equity, and if so, how much would we be able to raise for a merger or acquisition?
4. Is it possible for us to raise new debt, and if so, how much can we raise for a merger or acquisition?

Understanding the obstacles

CE1 and CE7 noted that all their major stakeholders have different opinions on how to evaluate a potential merger or acquisition. Knowing and understanding the various criteria will definitely have an impact on the potential target companies that will be pursued.

CE7 indicated that the following are just some of the criteria that could be looked at:

1. Determine the valuation multiples (What would your organisation's relevant parties be willing to pay, for example: 4X restructured EBITDA).
2. Determine what the expected return on investment is (What returns do the relevant parties involved, expect within the next five years?).
3. Determine what the relevant debt terms are, for example: is the organisation willing to go over 3X coverage ratio?

It would be in the construction executives' best interest to learn about the criteria by which these transactions will be evaluated, before they actually present their recommendations to the relevant parties involved.

6.3.4 Develop a list of potential target companies

According to FA1 and CE8 construction executives need to understand that their primary goal is to identify those organisations that would be the best fit in their merger and acquisition strategy. By identifying the best organisations right from the start, their organisation would have a better chance to reach its future business goals. The following steps are compiled from the research of Eisenhardt and Graebner (2007) and from the viewpoints of FA3, CE1 and CE8.

Step 1: Build a list of potential target companies

As per Eisenhardt and Graebner (2007) potential merger and acquisition target companies should be identified through the following:

- Target companies can be identified through a thorough in-house market analysis and research procedure;
- Companies that are being evaluated by research organisations and analyst should be looked at;
- Recommendations from the relevant parties and stakeholders involved.

Step 2: Develop a separate profile for each target organisation

CE8 highlighted that once the relevant organisations have been identified, the next step is to develop a separate profile for every organisation. This profile will help to make a distinction between the various organisations and will start to highlight the differences in more detail. CE1 and CE8 identified the following questions that will provide the elements included in an organisation profile:

- In which markets does the organisation operate in?
- What are the organisation's key business operations?
- What are the revenues and is it a profitable organisation?
- What is the organisation's value?
- Do we know and understand the organisation's geographic footprint?

These are only some of the questions that should be asked to create a proper profile of each potential target company. As per FA3 '*it is important to create a* *profile for every potential organisation, the reason being, by creating a profile our construction clients will be able to see on paper, which organisation more closely resembles their companies' own profile*.'

6.3.5 Building initial valuation models

FA5 and FA6 felt that the construction companies did not make use of proper financial analysis when they chose a potential target organisation. According to FA5 and FA6, construction executives need to determine what the exact merger and acquisition cost will be. Together with this estimation, construction executives also need to determine what the potential returns could be for merging or acquiring another company.

Initial Valuation Models

FA3 explained that during the initial valuation stage, organisations will determine and understand what the costs and returns for a merger and acquisition will be. FA2 agreed with FA3's statement and elaborated '*the initial valuation stage should not be seen as an in-depth analysis process but rather as a preliminary valuation stage with the aim being, to achieve a higher and overall picture of the potential merger or acquisition'*. During this stage of the valuation the goal is to get an estimated cost and value of the potential target organisations. As per FA1 an in-depth analysis of the potential merger and acquisition opportunity will only take place after the appropriate organisation has been identified.

6.3.6 Rate the Merger or Acquisition

According to CE8, once all the data on all the potential target companies have been gathered and compiled it is important for the construction executives to rate the level of strategic and organisational fit. Together with these factors the executives should not forget to rate the feasibility of closing the merger and acquisition deal. By making use of a rating system, construction executives can determine right from the initial stages of merger and acquisition transactions which organisations are a strategic fit to their overall future business plan.

6.3.7 Perform a complete due diligence on the target company

Once the appropriate company has been chosen, it would be in the construction executives' best interest to perform a complete due diligence on the organisation. Bertoncelj and Kovač (2007) define due diligence as a means to learn about the target organisation and to eliminate any uncertainties while confirming the appropriate bidding price.

As per CE8, due diligence should be an in-depth analysis of the target company's entire business, and not just analysing financial statements as has been the focus in the past. CE2 agrees and further adds to CE8's statement that it is important for construction executives to investigate the target company's operational and managerial strengths and weaknesses. FA1 recommended that a due diligence should consist of a detailed financial analysis which will indicate whether an organisation is having operational performance problems. Another factor that should not be overlooked is an examination of the organisations culture together with an assessment of the managing team and executives. FA1 suggests that construction executives can obtain this information by means of building relationships with those potential organisation's executives.

The literature of Bertoncelj and Kovač (2007) suggests that construction executives should view due diligence as a detailed investigation of a target company. A complete and appropriate due diligence process as per FA1 should include financial analysis together with tax implications, any legal matters that need to be examined, sales and operational activities, organisational cultural differences, and an investigation of management.

6.3.8 Review and get approval for the merger and acquisition strategy

The next step according to Yan and Li (2009) is often overlooked by many organisations. Reviewing the whole process and getting the appropriate stakeholders' viewpoints and agreements will help to get everybody onto the same page. Construction executives together with their financial advisors can make use of a merger and acquisition strategy presentation to the relevant stakeholders.

From the research conducted the researcher has compiled the following format that can be followed by the executives:

Example of an Approval Schedule

- Prepare a brief summary of the merger and acquisition strategy (Indicated in table below)
- Schedule meeting and deliver findings to stakeholders:
  a. Organisational Executive team
  b. Managing Board of Directors
  c. Major Investors
- Come to a conclusion and produce final merger and acquisition strategy.
- Revise merger and acquisition strategy on a quarterly basis. Update merger and acquisition strategy in accordance with organisational business plan.

Table 5: Presentation of M&A Strategy

Presentation of M&A Strategy
 	
• Executive Summary
 	
• M&A / Business Plan Drivers
    • Target Markets / Market Share
    • Technologies / Operations
    • Cultural Issues
    • Management Skills
    • Organisational and Financial Targets
    • Transaction Risks
 	
• Financing Methods and Constraints
 	
• Review M&A Candidate List
 	
• Results from Initial Valuation
 	
• Conclusion and the way forward

6.3.9 Post-acquisition integration

The final important key factor that should not be overlooked by the construction executives, once their merger or acquisition has taken place, is the post integration phase. This phase is often overlooked by executives, even though it can be the deciding factor in the success of a merger or acquisition transaction. The reason for this factor being overlooked as per CE8 is that executives often feel that the deal has been done and now it is ‘down to business as usual’. Executives would be wise to incorporate this factor into their merger and acquisition strategy.

6.4 CONCLUSION: A FRAMEWORK FOR A MERGER AND ACQUISITION STRATEGY

As can be seen from the research it is important for construction executives to realise that before they enter into a merger or acquisition transaction they would have to conduct a proper assessment as per the framework indicated in the preceding section. The outcome of this assessment will be that the executives in the end have targeted the optimal potential organisation and therefore the merger or acquisition can finally take place at the correct price.

Once the merger or acquisition has been finalised, it is important that the post-acquisition integration phase is initiated as soon as possible to ensure that no possible problems could be revealed after the transaction has been finalised.

Another factor which will need attention is that of cultural differences. This factor will have to be addressed as soon as the merger and acquisition strategy is being put together. By focussing on cultural differences it will create a sense of safety in the target organisation’s management and employees. This will let them feel a part of the acquisition and they will be able to provide their input into the merger or acquisition transaction.

Finally, together with the set strategic framework, the major factor in the end will be the overall management of the merger or acquisition. Executives will play the biggest role in the success of these transactions, as they will be at the forefront of the deals taking place. It is therefore their responsibility to guide the transactions, and make sure that all the relevant parties are actively involved in the on-going process of an effective merger and acquisition integration process.

7 CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

7.1 CONCLUSION

According to the literature and the information received from the interviews it is clear that mergers and acquisitions are complex transactions that seem to have a higher failure rate than a success rate in organisations today. Despite the fact that industry professionals see mergers and acquisitions as a means to rapidly grow their organisations, only about half of all merger and acquisition transactions reach to potential strategic or financial objectives. In most cases, mergers and acquisitions fail due to several factors, from organisations paying too much for the target company, to executives going into these transactions for the wrong reasons, as well as deciding upon an organisation that is not really going to add value to the overall business strategy and goals of the acquiring firm and taking part in M&As at the most inappropriate times.

The researcher's aim was to contribute to the current pool of knowledge on mergers and acquisitions by suggesting that there are certain key success factors that could influence the performance of these types of transactions, specifically within the construction industry in South Africa.

The researcher found that the construction executives and the financial advisors who have advised clients in the construction industry on M&As accepted certain key factors as important to their M&A strategies. However, as indicated in the research, there were certain factors indicated within the literature as important to the success of mergers and acquisitions that were not seen as important by the executives interviewed. The study for instance showed that the majority of construction executives and financial advisors did not view cultural differences as an important key factor. When it came to merger and acquisition transactions executives were more focused on the harder factors (target assessment, risk analysis, synergies, and strategic fit) than on those softer factors that had the human element involved.

According to FA1 and CE8 mergers and acquisitions should be planned carefully and organisations within the construction industry should aim to have an explicit mergers and acquisition strategy which they should follow religiously. By following a structured approach with identified key factors, organisations can increase their chances of having a successful merger or acquisition. The mergers and acquisitions strategy should be in writing and all key factors of the integrated approach should be agreed upon by all the relevant parties involved before any deals are to take place. Shooting from the hip is not an option and executives should know how to manage those key factors effectively.

The softer key factors like the differences in organisational cultures, ineffective management of management as well as staff, and executives' lack of communication, among others; need greater focus and attention from executives. According to the literature it is the lack of focus on the softer factors that causes the majority of mergers and acquisitions to fail during their consolidation period. Organisations that are able to incorporate both the soft and hard key success factors into their mergers and acquisitions strategy should in theory enhance the success rate of their merger and acquisition deals.

The study shows that a majority of construction firms in South Africa see competitive advantage as the primary vehicle for taking part in M&As. The mode of competition is primarily quality and innovation for the largest South African construction companies. The South African construction firms were found to be more vertically integrated with a large variety of specialised services.

The differences between the two sample groups were the perceptions that they had on mergers and acquisitions. Financial advisors were more focused on the financial aspects of the M&A transactions, while the construction executives were more focused on expanding their current operations, therefore a clash of opinions existed.

Another interesting point that resulted from the interviews was the opinions that the two groups (financial advisors and construction executives) had about each other. The financial advisors felt that the construction executives were very arrogant in conducting their business. FA2 stated '*construction executives think they can just* *buy any organisation and it would be a success. They don't focus on the financial aspects of mergers and acquisitions'*. The construction executives on the other end felt that the financial advisors did not understand their business and that they were only focused on the financial matters. CE1 stated '*the financial advisors don't understand that we have a passion for the construction industry. We see possibilities where they only see the financial risks. We therefore make use of our own advisors to lead us with merger and acquisition transactions'*.

The study also shows that environmental factors can and will affect mergers and acquisitions. The executives of construction companies have to be able to adjust their mergers and acquisitions strategy according to any changing factors. The field study confirms that the construction industry can at times be very volatile and the successful organisations are those that can move with the trends and in the end be stronger than before any changes had been made.

With more construction companies wanting to grow their organisations through mergers and acquisitions, it will be those companies that can gain a competitive position and achieve success in the long run by integrating an effective M&A strategy.

7.2 SUGGESTIONS FOR FUTURE M&A RESEARCH

According to the research of Kale et al. (2009) merger and acquisition research has been on-going for nearly forty years. From the literature available only a few contributions are worth mentioning within the space available, however each of these contributions has helped to make enormous advances in our understanding of mergers and acquisitions. Yet, with all the academic interest shown in the phenomenon of mergers and acquisitions, empirical data has revealed that during the last couple of years there has been no change to the failure rates of these types of transactions.

The results obtained from a survey conducted on all European M&A transactions which took place from 1986 to 2006, with transaction values ranging from 13 to 290 million Euros (i.e., the so-called medium-sized firms) indicated that almost

69% of these mergers and acquisitions have failed. Some of the most prominent reasons for these failures were a lack of deal preparation, failing to focus on the cultural differences which took place during the post-acquisition phase, ineffective management of staff, ineffective communication between the various parties involved, unclear or no merger and acquisition strategies or poor execution of the deals themselves (Morresi and Pezzi, 2009). Of those organisations that did merge successfully Kale et al. (2009) noted that only about 28% achieved increased profitability.

Within the research of Morresi and Pezzi (2009) an examination was done on the returns to the bidding organisation's shareholders. The results indicated that within the last 10 years' mergers and acquisitions had produced negative average returns similar to those results obtained historically. The following three factors could be seen as just a few reasons for the lack of improvement in merger and acquisition transactions over the past 10 years:

- Executives are ego-driven in deciding to make use of mergers and acquisitions to grow their organisations and therefore non-value maximising motives.
- All the industry facts on mergers and acquisitions found in the academic research has been ignored by executives or the information is not reaching the industry professional.
- The current research found on the topic of mergers and acquisitions is out of date and incomplete and therefore has an effect on the actual deals being conducted. These deals could end up being driven by incorrect motives based on incorrect information found in the academic research.

For example, FA1's financial institution investigated a sample of mergers and acquisitions in South Africa and found that 28 per cent of these transactions were driven by the executives' own personal motives and not by the shareholder interests and demands. In addition, FA1's organisation found evidence linking M&A failure to executives not concentrating on the human factor, and mistakenly overvaluing the target organisation. However, the overall conclusion was that the majority of merger and acquisition transactions are in actual fact driven and motivated by future organisational growth opportunities.

The second possible explanation that industry professionals are not aware of the research done on merger and acquisition activity is not plausible. The reason for this is that the majority of merger and acquisition researchers are involved in business executive programs provided by business schools. Therefore, senior industry professionals are educated in the transaction processes of mergers and acquisitions. Furthermore, the failure rates of mergers and acquisitions have been highlighted by the financial press and due to this fact there is an abundant source of practitioner-orientated texts available to other industry professionals who are serious about making M&A transactions work.

The third possibility for a lack of improvement in merger and acquisition activity is that the current research is out of date and incomplete. King, Dalton, Daily and Covin (2004) conducted a meta-analysis on 93 prior empirical studies on those factors that determined the performance of mergers and acquisitions. Within the research the analysis performed focused on the variables that were frequently studied within the finance and strategy literatures. Interestingly enough, their research found that post-acquisition performance was driven by variables that had not been specified in existing research. King et al. (2004) realised that changes had to be made to both mergers and acquisitions theory and research methods.

A second meta-analysis was conducted by King et al. (2004) where the focus was on the impact of cultural differences on merger and acquisition transactions and what effect it had on future organisational performance. Their results showed that ‘a huge portion of variance remains unexplained’ (King et al. 2004, p188). It is interesting to note that both meta-analyses call for a greater recognition of the human factors found in behavioural literature.

There are clearly various methodological bridges that would have to be crossed in order to link the findings from updated research on finance and strategy with the executive and organisational insights from behavioural studies. The results of these meta-analyses clearly show that there is a lot of ground that still needs to be covered for mergers and acquisition research.

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9 APPENDIX A

THE 2010 QUESTIONNAIRE

Formalisation of Strategy

Does your organisation follow an explicit M&A strategy? If yes please rate importance (Question for construction companies)? Does your organisation follow an explicit M&A strategy when you advise these construction companies during their M&A deals? If yes please rate importance (Question for financial advisors).

	Importance of M&A Strategy Not important ⟶ Most important					
No	1	2	3	4	5	Yes

Formalisation of Merger and Acquisition Profile

In your opinion which key factors of the M&A strategic process should be followed in order to achieve a successful international M&A deal? (Interviewer to explain what is meant by key success factors in M&A strategies.) Please rate importance?

Key success factors of a M&A Strategy

	Importance of Key Success Factors Not important ⟶ Most important					
	1	2	3	4	5	
Risk analysis						

Types of M&As						
Target Assessment						
Strategic Fit						
Due Diligence						
Organisational Culture						
Creating Synergies						
Amalgamation of Firms						
Managing Management						
Company Consolidation						

Further information in regards to the Questionnaire

The questionnaires which have not been completed fully will not be used in the analysis. Two, or more, questionnaires covering the same company will be consolidated into one data set, where the data in each questionnaire concurs. In the case where there is a confliction of data, the data will not be used. The answers to the questionnaires will be summarised in Tables 2 and 3.

10 APPENDIX B:

Table 6: List of Financial Institutions and Financial Experts

Financial Institutions	***Position held by respondent***	***Construction Companies***	***Position held by respondent***
Ernst & Young Advisory Services Ltd	Chief Financial Officer	**Murray and Roberts**	National operations Manager
Investec	Head, Corporate Finance	**Avenge**	Director
Deutsche Bank	Senior Vice President, M&A	**Basil Read**	Group Financial Manager
Absa Capital	Co-Head, M&A advisory	**Stefanutti Stocks (Pty) Ltd**	Director, Building and Construction
FNB / RMB Group	Director, Corporate and Investment Banking	**Group 5**	Chief Financial Officer
Grindrod Bank	General Manager, Corporate Finance	**Bombela Civil Construction**	National Operations Manager
Standard Bank	Director	**Theaco Road & Earth Works (Pty) Ltd**	Chief Executive Officer
Deloitte	Partner, Corporate Finance	**Vaal Triangle Construction**	National Financial Manager