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Deficient due diligence?

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2013-03-18
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DEFICIENT DUE DILIGENCE?

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment (50%) of the requirements for the degree of Master of Commerce in the Field of Accountancy.

A research report submitted by

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ABSTRACT:

The effectiveness of traditional due diligence practices and whether they contribute to Merger and Acquisition (M&A) success or failure is an ongoing debate in finance research. This research report contributes to the debate by examining the effectiveness of traditional due diligence using a qualitative research approach. A dataset of traditional due diligence practices was compiled from the literature, which formed the basis for an interview which was conducted with corporate finance practices. The findings indicate that the traditional due diligence process is considered to be an evolving process, where due diligence practices of the last decade are considered to be significantly different from the due diligence required in acquisitions today. Due diligence is also considered to be indispensable, and its scope and importance underestimated. Furthermore, any perceived deficiency in a due diligence is not necessarily in concept, but rather in execution, with excessive focus on the accounting and legal aspects of a M&A, while neglecting the macro-environment, marketing, production, management and information systems. It is also concluded that most stakeholders have understood that failure to carry out proper due diligence could be financially damaging to the parties transacting. In an attempt to determine what due diligence means for the current as well as the future, this study uncovers a critical trend in the forms and manner of flawed due diligence practices and paves the way to a more strategic due diligence, which are useful for practitioners in the present and in the future for M&A success.

ACKNOWLEDGEMENTS:

A special thank you must be made to those who assisted me through this challenging phase of my life, without whom none of this would be possible...

My supervisor, Professor Gary Swarty, who has been an inspiration and rock for me from the very beginning...

Professor Kurt Sartorious and Jacqueline Arendse and not forgetting my HOD, Mrs.Magda Turner, who all believed in me when no one else did...

To my wonderful friends and family who have been there for me this year, good times and bad...

My words cannot convey my gratitude and appreciation to you all...

With much love and affection,

Adnan.

DECLARATION

I, **Adnan Inayat Patel,** declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Commerce in the Field of Accountancy. It has not been submitted before for any degree or examination in this or any other university.

(**Adnan Inayat Patel**)

Signed at the University of the Witwatersrand

On the 28th day of February 2012.

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"THE ART OF DOING DUE DILIGENCE IS BEING LOST. BUYERS AREN'T ANALYZING THE OPERATIONS AND BOOKS OF PROSPECTIVE ACQUISITIONS WITH NEARLY ENOUGH VIGOUR"

(*FORTUNE*, 3 SEPTEMBER 2001).