Critical Success Factors in Mergers and Acquisitions in South Africa

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ABSTRACT

This research was conducted to identify critical success factors (CSFs) in mergers and acquisitions (M&As) in South Africa. It is estimated that between 60 and 80 percent of M&As fail to create value for shareholders (Marks and Mirvis, 2001; Selden and Colvin, 2003). Developed countries have done several studies on M&As but this literature has not been theoretically integrated (Haleblian, Devers, McNamara, Carpenter and Davison, 2009). The studies are fragmented across diverse areas of academic fields such as strategic management, international business, human resource management, and finance (Shimizu, Hitt, Vaidyanath and Pisano, 2004). The complexity of engaging in M&As is exacerbated by the fact that the acquisition process consists of many other complex interdependent sub-activities, such as due diligence, negotiation, financing and integration (Hitt, Harrison and Ireland, 2001). This research has consolidated the literature and highlighted the CSFs for M&As in the South African banking industry based on an in-depth analysis of the Barclays Bank Plc acquisition of Absa (formerly Amalgamated Banks of South Africa) which was completed in 2005. Semi-structured interviews were used to collect data from twenty former team members of the Absa and Barclays' integration team. The data was analysed using content analysis. Eighteen CSFs were tested on Absa with seventeen being validated, demonstrating that the factors affecting M&As in developed countries are also applicable to South Africa. An additional factor not mentioned in literature, namely incentivising key people, was identified in the Absa context. The broad categories of the factors validated were strategic alignment (relatedness, complementarities, new geographies, new products, new customers), acquisition experience of the acquirer, due diligence, size of the acquirer, low premium, communication, selection of new leadership, integration structure, appropriate cultural integration, involvement of top leadership, integration speed and certain external factors. Payment method was not a CSF in the Absa and Barclays M&A.

DECLARATION

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

Ophelia Nyambe

Signed at …………………………………………………

On the ……………………………. day of ………………………… 2012

DEDICATION

I DEDICATE MY WORK TO MY ALMIGHTY GOD WHOSE DIVINE BLESSINGS AND SUPPORT MADE IT POSSIBLE FOR ME TO PURSUE THIS MBA DEGREE.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to assess the critical success factors (CSFs) in mergers and acquisitions (M&As) in South Africa, using the case of the acquisition of Absa Group Limited (Absa) by Barclays Bank Plc (Barclays). The study evaluated what was done in the Absa and Barclays merger by interviewing Absa executives to establish whether the processes and actions identified in literature were actually used and if so, to evaluate how they were used in this transaction. It also identified other processes and actions that were undertaken in this deal which do not appear in literature. This report suggests the processes which should be followed and the actions which should be taken by managers in merger and acquisition (M&A) transactions. In addition, the research provides a framework to assist managers in being more effective in integrating merged and acquired entities.

1.2 Context of the study

Growing competition and globalisation has increased the opportunities and pressures for firms to engage in M&As in order to expand their businesses and increase their profits (Horwitz, Anderssen, Bezuidenhout, Cohen, Kirsten, Mosoeunyane et al., 2002; Appelbaum, Lefrancois, Tonna and Shapiro, 2007b) including cross-border M&As (Hitt, 2000). Banks in particular are facing increased competition both from other banks and non-banking firms (Lazaridis, 2003). According to Correia, Flynn, Uliana and Wormald (2003), the South African banking sector was consolidating and becoming concentrated in line with global developments.

Until 1994, South Africa was excluded from international competition because of sanctions imposed by the European Union (EU), Commonwealth countries, Japan, the United States (US) and several other countries (Levy, 1999). Having opened up trade relations globally, South Africa now has to compete with multinationals both locally and abroad. China, India and Korea are investing in South Africa, while South African companies, in turn, are investing in Africa (Davids and Hale, 2010). Accordingly, there is an increase in cross–border M&As in South Africa, both inwardly and outwardly. Identifying Black Economic Empowerment (BEE) transactions as being one of the main drivers of South African M&A activity, Davids and Hale (2010) explain that BEE deals are unique to the South African environment and that they are specifically aimed at fulfilling government requirements of economically empowering previously disadvantaged black South Africans.

The banking sector has not been spared of competition from international players. Barclays acquired a majority stake in Absa for R29.8bn in 2005 and the Industrial and Commercial Bank of China (ICBC) acquired a 20% stake in Standard Bank for R36.7bn in 2007 (Ernst & Young, 2010). The Hong Kong Shanghai Banking Corporation (HSBC) recently walked away from acquiring Nedbank (Naidoo, 2010), while Standard Chartered Bank of the United Kingdom (UK) has long been rumoured to be interested in Nedbank (Ferreira-Marques and Lourie, 2010). Outwardly, all South African banks are exploring expansion into Africa, with Standard Bank intending to increase its stake in Nigeria and FirstRand also looking to venture into Nigeria (Ernst & Young, 2010).

Despite the popularity of M&As, various scholars have found that M&As fail in that they do not create value for the merged firm (Fuller, Netter and Stegemoller, 2002; Gadiesh, Ormiston and Rovit, 2003; Nguyen and Kleiner, 2003; Homburg and Bucerius, 2006; Barkema and Schijven, 2008; Chatterjee, 2009). South African companies, and in particular banks, have had their share of M&A failures.

United Building Society (UBS) Holdings, the Allied and Volkskas groups and part of Sage Financial Services merged to form the Amalgamated Banks of South Africa (Absa) with a total value of R1,757.7 million in 1991 (Correia et al., 2003). Following this deal, Absa became the largest financial services group in South Africa. Joffe (2000), contends that Absa staff morale was negatively affected, leading to a high turnover of staff and customers. The author further explains that the computer systems merger took five years longer than anticipated and cost approximately R1.5bn more. The merged group took time to settle and lagged behind its competitors in terms of costs, capital and profitability. Furthermore, in 2002, Unifer, the then micro-lending arm of Absa, experienced problems and its collapse led to concerns for Saambou's micro-lending exposure. Simelane (2002) reports that these concerns triggered the collapse of Saambou, the then seventh largest retail bank in South Africa.

FirstRand was created from the merger of Southern Life and First National Bank (FNB), the financial interests of Anglo American and Rand Merchant Bank Holdings for R59 billion (Correia et al., 2003). Insiders to the FirstRand merger conceded that although the merger appeared to have smoothly integrated, it was tougher, more costly and lasted far longer than expected (Joffe, 2000).

Board of Executors (BOE) experienced liquidity problems in 2002 following the withdrawal by depositors, necessitating the government and the Reserve Bank to provide guarantees to depositors (Correia et al., 2003). The then BOE Chief Executive Officer (CEO) Tom Boardman claimed that the run on the bank was caused by speculation about BOE's R12 billion sale of its Natal Building Society (NBS) Bank home loan book to FirstRand (Fin24, 2002). Boardman argued that the sale of BOE's loan book sparked rumours of a liquidity crisis and that these fears arose out of the collapse of Saambou. BOE subsequently merged with Nedbank and Nedbank's financial performance took a downturn after the merger (Barret Value Centre, 2011). The strengthening of the rand in 2003 caused interest rate mismatches in the funding structure of the Nedbank and BOE transaction leading to translation losses for Nedbank (Nedbank, 2003).

The aforementioned deals provided ample motivation for studying the CSFs for M&As, particularly in the banking sector. The synergistic benefits envisaged for the Absa and Barclays deal were realised in full eighteen months early, signifying that this deal was a success (Absa, 2007). This research examined this M&A transaction to understand why and how it fulfilled its financial objectives. The study also evaluated whether the deal was indeed successful based on the CSFs for M&As as identified in literature. The learnings from this deal can be used by other South African entities that are engaged, or intend to engage, in M&A transactions.

1.3 Problem statement

1.3.1 *Main problem*

To determine the critical success factors in mergers and acquisitions in South Africa.

1.4 Significance of the study

The study fills a gap by consolidating the literature and key learnings on the CSFs for M&As in the South African banking industry, particularly in cross-border transactions. Cross-border M&A academic research is fragmented across many disciplines such as strategic management, international business, human resource management and finance (Shimizu et al., 2004). The acquisition activity findings from the diverse areas of academic fields have to date not been theoretically integrated (Haleblian et al., 2009).

M&As are undertaken to gain competitive advantages which cannot be achieved by organic growth alone (Horwitz et al., 2002). However, there is considerable evidence from business practice, backed up by several academic studies, that most M&As fail (Fuller et al., 2002; Gadiesh et al., 2003; Homburg and Bucerius, 2006; Barkema and Schijven, 2008; Chatterjee, 2009). Estimated failure rates are typically between 60 and 80 percent (Marks and Mirvis, 2001; Selden and Colvin, 2003). Such failures have been exacerbated by the fact that the acquisition process consists of many other complex interdependent sub-activities, such as due diligence, negotiation, financing and integration (Hitt et al., 2001).

Despite this evidence, M&As continue to be a highly popular form of corporate development (Cartwright and Schoenberg, 2006). According to the authors, 30,000 acquisitions were completed globally in 2004, equivalent to one transaction every 18 minutes. Cartwright and Schoenberg (2006) claim that the total value of these acquisitions was $1,900 billion which is in excess of the gross domestic product (GDP) of many large countries. Despite the global economic downturn, South African M&A activity in the first quarter of 2010 was 110% up when compared with the same period in 2009 (Davids and Hale, 2010). The growth mainly came from cross-border deals and corporate restructurings.

Much of society's savings are mobilised, allocated and invested by banks, hence bank performance has major repercussions on capital allocation, firm growth, industrial expansion, and economic development (Berger, Demirguc-Kunt, Levine and Haubrich, 2004). Berger *et al.* (2004) note that the consolidation of banks around the world recently, and its effects on concentration and competition in the banking industry, has intensified public policy debates. Therefore, research on the effects of bank performance arising from concentration and competition is important because it has implications for policy. Additionally, the contagion risk faced by the banking industry calls for careful execution of bank M&As (Marcus, 2000). Marcus (2000) defined contagion risk as the risk of a problem, or problems, in one or more associate entities contaminating the bank, causing negative perceptions of the bank and, in certain cases, even leading to bank failures.

This study will focus on the acquisition of Absa by Barclays. This was not a 100% acquisition as Absa still had a big minority shareholding of over 40%. This inevitably resulted in corporate governance issues needing to be dealt with to the satisfaction of both Barclays and minority shareholders. It is important to understand and learn from the management of the post-acquisition Absa.

This study provides a consolidated framework for executing successful M&As, to be used as a guide by managers of both acquirers and targets, M&A deal advisors, academic staff and their finance students.

1.5 Delimitations of the study

The research focused on CSFs in M&As in South Africa using the case study of the acquisition of Absa by Barclays. The research did not extend to any other public or private company.

1.6 Definition of terms

- Acquirer – refers to the firm that makes the bid or offer to acquire part or all of another company (Firer, Ross, Westerfield and Jordan, 2008). Some scholars refer to acquirers as bidders (Focarelli, Panetta and Salleo, 2002).
- Target – the company for which a bid is made (by the acquirer) (Firer et al., 2008).
- Critical success factors (CSFs) – these are conditions which need to be met to assure success (Poon and Wagner, 2001) or " the essential areas of activity that must be performed well if you are to achieve the mission, objectives or goals for your business or project" (Mind Tools, 2011) .
- Due diligence - an objective and independent examination of the target's business position with particular focus on the company's financials, tax matters, asset valuation and operations (Angwin, 2001). Furthermore, it is carried out to provide assurances to the lenders and advisors in the transaction as well as to the acquirer's management team.

- Integration – Effective integration is the "combination of firms into a single unit or group, generating joint efforts to fulfil the goals of the new organisation" (Salama, Holland and Vinten, 2003 P:314).

- Firm – "an economic unit that hires factors of production and organises those factors to produce and sell goods and services" (CFA Institute, 2008, Glossary P:G-19). Firm, company and organisation have been used interchangeably in this study.

1.7 Assumptions

The research was conducted, based on the following underlying assumptions:

- The respondents who were selected were conversant enough with matters pertaining to the acquisition of Absa by Barclays. Lack of knowledge or understanding of the pertinent matters of the deal between Absa and Barclays would have been detrimental to the credibility of the study.

- The identified individuals shared information objectively and honestly. False responses would have negatively affected the quality of the results.

- The respondents' views were representative of the Absa and Barclays deal. Non-representative views would have skewed the results of the study and reduced its validity.

- The total number of respondents was sufficient to gain adequate data.

- It was expected that some of the characteristics purported by respondents would only apply to the South Africa business environment.

- The deal complied with legal, regulatory and tax matters.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The literature review will focus on the key themes of relevance to the study by identifying the CFAs in M&As. The chapter first provides a background discussion, by giving an overview of growth strategies, types of M&As and the reasons for them. This is followed by a theoretical review of the CSFs for M&As. Performance measurement of M&As has also been addressed in this section. The chapter concludes with an overview of key learnings based on the literature review.

2.2 Definition of topic or background discussion

A merger is the compilation of two, almost equally-sized companies' share capital although the newly merged company might keep the name of one of the previous companies or get a new name altogether (Hubbard in Lazaridis, 2003). The two entities take the best of each firm to form a new organisation (Epstein, 2005) sharing resources and corporate objectives (Ghobodian, James, Liu and Viney, 1999). An acquisition occurs when an organisation takes control or takes over ownership by purchasing majority shares in another organisation (Horwitz et al., 2002). Cross-border M&As are done between an acquirer and a target whose headquarters are located in different home countries (Shimizu et al., 2004). Although M&A's are different legal transactions, they tend to be treated synonymously in the literature, primarily because in practice a merger is rarely a marriage of equals (Cartwright and Cooper, 1996). In this study "mergers" and "acquisitions" will be used interchangeably to refer to either a compilation of two or more firms or the purchase of a majority stake in one firm by another.

2.3 Growth Strategies

There are different entry modes into foreign countries, ranging from contractual arrangements like licensing to equity modes such as joint ventures (JVs) and full acquisitions (Slangen and Hennart, 2007). According to Shimizu, Hitt, Vaidyanath and Pisano (2004), using an M&A as a mode of entry into a foreign market is influenced by firm-level factors, industry-level factors and country-level factors. Firm-level factors are the organisation's multinational experience, local experience, product diversity and international strategy. Industry-level factors are technological intensity, advertising intensity and sales force intensity. Country-level factors include market growth in the host country, cultural idiosyncrasies between the home and host countries, and the specific culture of the acquiring firm's home country. Growth can be achieved by strategic alliances, setting up Greenfields and/or acquiring other firms (Shimizu et al., 2004).

2.3.1 Strategic alliances

In an alliance, organisations share the costs, risks and benefits of entering new or foreign markets (Shimizu et al., 2004). The authors state that compared to equity modes of entry, the costs and risks of alliances are low at the expense of high control. Furthermore, a strategic alliance venture also demands high transaction costs in cooperation and coordination in order to succeed.

2.3.2 Greenfields

Greenfields are newly formed entities of a firm (Vermeulen and Barkema, 2001; Harzing, 2002; Slangen and Hennart, 2007). They are established in new geographic regions (Shimizu et al., 2004) either as wholly owned subsidiaries or as joint ventures (Slangen and Hennart, 2007). Companies can exercise the highest level of control in Greenfields but they are costly owing to the need to establish physical facilities, building relationships with the government, and building production and distribution channels (Shimizu et al., 2004).

2.3.3 Acquisitions

An acquisition involves purchasing part or all of the equity of an existing firm (Larimo, 2003), implying that acquisitions can be partially or wholly owned (Chen, 2008). An acquisition is better than a Greenfield in that it allows the acquirer to achieve greater market power, overcome barriers to entry, enter new markets quickly, exploit foreign market opportunities and acquire new knowledge and resources (Shimizu et al., 2004; Chakrabarti, Gupta-Mukherjee and Jayaraman, 2008; Chen, 2008). Cross-border acquisitions are used as a mode of foreign entry in internalisation strategies (Chakrabarti et al., 2008).

2.4 Types of mergers and acquisitions

2.4.1 Horizontal acquisitions

These are M&As which take place within one industry, often between direct competitors (Mullins, 2001; Krishnan and Park, 2002; Investopedia, 2006; Gaughan, 2007; Firer et al., 2008)

2.4.2 Vertical acquisitions

This is the takeover of a company within the same line of business for example taking over a customer or a supplier (Mullins, 2001; Investopedia, 2006). It involves the combination of firms at different levels of the production process (Firer et al., 2008). Firer *et al.* (2008), explain that the acquisition can either be forward, towards end customers or backwards towards suppliers.

2.4.3 Conglomerates

Conglomeration is the combination of companies with distinct business activities (Mullins, 2001; Investopedia, 2006) and the companies need not be integrated

(Epstein, 2005). Conglomerate acquisitions are done for risk diversification or for lowering the combined company's cost of capital (Firer et al., 2008).

2.5 Reasons for mergers and acquisitions

Organisations engage in M&As for various reasons. These range from the need to be more competitive to managerial motives as discussed further in the following paragraphs.

Increased competition and globalisation has necessitated firms to engage in M&As in order to broaden their businesses and increase their profits (Hitt, 2000; Horwitz et al., 2002; Appelbaum et al., 2007b).

Companies also want access to resources; tangible resources such a plant and equipment, or intangible resources such as trade secrets, patents and copyrights, as well as the skills of the target company's employees (Mullins, 2001). M&As offer immediate access to technologies, products, distribution channels, and favourable market positions (Appelbaum, Gandell, Shapiro, Belisle and Hoeven, 2000a), and can be a strategy to overcome a lack of knowledge, reduce research and development (R&D) costs and to increase the number of potential products in a pipeline (Ahuja and Katila, 2001; Ranft and Lord, 2002). In the financial sector, M&As have been necessitated by technological change (Altunbas and Marqués, 2008).

Some entities want to improve their market position by eliminating competition through acquiring competitors (Mullins, 2001). The author notes that most countries have anti-trust or anti-competitive regulations which deter this kind of combination as it ultimately disadvantages consumers. Elimination of competition, therefore, is not stated as a reason for an M&A deal.

Certain companies seek to diversify their activities using either product or geographical diversification or both. Expansion into new products and geographical areas allows financial institutions to diversify both their risks and their revenue sources, thereby providing a buffer in the event of geographic or product-related shocks (Altunbas and Marqués, 2008).

Some firms aim to attain economies of scale. This is achieved when the average cost per unit of production is reduced by increasing production (Firer et al., 2008). Firer *et al.* (2008) explain that this is usually linked to the spreading of overheads, such as the sharing of central facilities including corporate headquarters, top management and information technology (IT) services. Firms may benefit from cost savings by attaining a certain optimal size due to technological and market conditions (Mullins, 2001). Mullins (2001) claims that economies of scale is often given as the reason for M&As in the financial services sector as it is assumed that larger firms can achieve greater economies of scale compared to smaller ones. Economies of scale was presented as one of the main reasons of the acquisition of BOE by Nedcor Ltd in 2002 (Firer et al., 2008). Mullins (2001) assert that beyond a certain asset size, firms achieve diseconomies of scale, hence larger financial institutions may not necessarily be more efficient than smaller ones. This assertion is reinforced by Firer *et al.* (2008) as depicted in Figure 1.

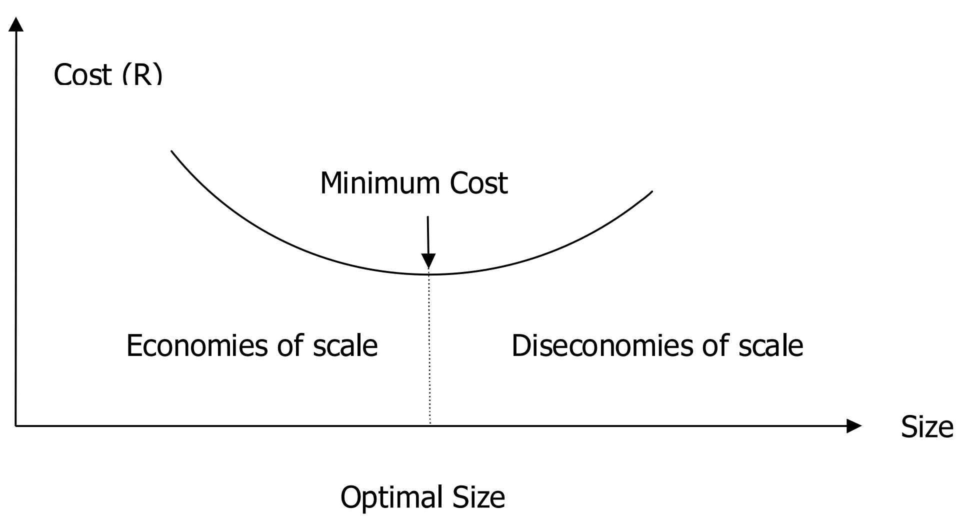

Figure 1: Economies of scale

Source: Firer et al., 2008

Some M&As are done to gain a foothold in a growth market or new market. Twelve percent of all cross-border acquisitions in Europe were attributed to new market entry (Jagersma, 2005).

Management motives also account for a good number of M&As. Managerial confidence and ego gratification (dubbed managerial hubris i.e. exaggerated self-confidence) may also increase acquisitive behaviour (Haleblian et al., 2009). Malmendier and Tate (2008) found that overconfident Chief Executive Officers (CEOs) overestimate their ability to generate returns, often overpaying for target companies and, as a result, embark on value-destroying mergers. The authors found this to be more pronounced for firms that have access to internal financing.

Through M&As, synergies between the parties can be obtained. Synergies are the increase in the value of the new company due to an increase in sales, economies of scale or cost savings (Arzac, 2005). Synergies are obtained when the value of the combined entity is more than the value of the separate firms added together, sometimes referred to as the 2+2=5 effect (Correia et al., 2003). Correia *et al*. (2003) argue that a merger should not be formed if the value of the combined firm is less than the value of the separate companies denoted by the formula;

$$V_{xy} > V_x + V_y$$

Where:

V_{xy} = Value of the combined firm

V_x = Value of firm X

V_y = Value of firm Y

Arzac (2005) formulated the equation below for the positive synergistic effect which arises when company A acquires company B to form company C:

$V_C = V_B + V_A$ + Synergies – Cash

Where:

V_A = the market value of company A prior to the announcement of the transaction.

V_B = the market value of company B prior to the announcement of the transaction.

V_C = the new value of company C.

Synergies = the increase in the value of equity as a result of the merger.

Cash = the cash and non-equity component of the price paid for company B.

There are five types of synergies on which acquirers base their calculations; cost savings, revenue enhancements, process improvements, financial engineering and tax benefits (Eccles, Lanes and Wilson, 1999). The authors found that cost saving is the most common type of synergy and is the easiest to measure as it is usually achieved by cutting excess jobs, facilities and related expenses. Revenue enhancements are derived from many sources including cross-selling of bank services (Houston, James and Ryngaert, 2001), and can be hard to estimate because they include factors beyond management's control (Eccles et al., 1999). This view is shared by Perry and Herd (2004) who claim that it is more difficult to achieve and measure forecasted growth targets than it is to achieve cost savings.

2.6 Critical success factors in mergers and acquisitions

In this study, the CSFs in M&As are grouped into two phases; pre-merger and post-merger. Each phase has various success factors. Success factors for the pre-merger include strategic vision and fit, the M&A experience of the acquirer, due diligence, deal structure, communication and selection of new leadership. Success factors for the post-merger phase include a strong integration structure, appropriate integration of diverse corporate cultures and integration speed. M&As can also be affected by external factors such as general economic conditions. M&A success factors are not necessarily confined to one phase; some success factors such as communication are relevant in both phases.

2.6.1 Pre-merger planning

There is a direct correlation between the quality of planning and M&A success (Nguyen and Kleiner, 2003). In order to realise value from a deal, the acquirer must gain a full understanding of the target prior to the acquisition (Perry and Herd, 2004) and aim for companies with the right capabilities (Viscio, Harbison, Asin and Vitaro, 1999). The literature on the pre-merger success factors of strategic vision and fit, the M&A experience of the acquirer, due diligence, deal structure, communication and selection of new leadership are discussed as follows;

2.6.1.1 Strategic vision and fit

This section will discuss the factors which affect strategic vision and fit. These are strategic alignment, focus on core business in terms of relatedness, complementarity, geographic or product focus and acquisition of customers.

2.6.1.1.1 Strategic alignment

Corporate strategists have identified strategic fit as a critical factor in determining the success or failure of M&A deals (Aiello and Watkins, 2000; Altunbas and Marqués, 2008). Bower (2001) claims that M&As are a means to an end, hence they must be done to fulfil a strategic need. A company should strategically formulate a vision for its' future and analyse how an M&A deal would fit into the strategy (Viscio et al., 1999). Acquirers must identify "must haves" that are aligned to their strategic objectives (Aiello and Watkins, 2000). Zollo and Singh

(2004) studied the post-acquisition consequences of horizontal acquisitions on performance of integration decisions and capability-building mechanisms for 228 acquisitions done by commercial banks in the US, excluding product extensions and unrelated acquisitions. The study found that the success of post-merger acquisition is not only dependent on integration capability but also on the ability to identify the appropriate acquisition candidate.

According to Bower (2001), not all M&A strategies are alike. Therefore, understanding the strategic motives underlying them is important for successfully implementing different types of acquisitions. The author identified five strategic needs for M&As; to deal with overcapacity in mature industries, to roll up competitors in geographically fragmented industries, to extend into new products or markets, to substitute for R&D and to exploit eroding industry boundaries by inventing an industry. The author's explanations of these five M&As are as follows

- Overcapacity M&As are done in older capital-intensive industries in which the acquirer closes less competitive facilities, gets rid of ineffective managers and streamlines administrative processes in order to obtain higher market share or more efficient operations. Overcapacity M&As are aimed at trimming down industry giants by reducing capacity and duplication in order to make them fit the needs of shrinking markets.

- Geographic roll-up M&As on the other hand are done to build industry giants through economies of scale and scope in order to obtain easy access to capital, national marketing and modern technology.

- Product or market extension M&As are deals aimed at extending a firm's product line or increasing its reach either domestically or internationally.

- R&D M&As are aimed at substituting internal R&D in order to build a market position quickly as a response to short product life cycles. Ranft and Lord (2002) concur by stating that high technology acquisitions are being done to respond to the innovation need faced by various industries.

- Industry convergence M&As are the invention of an industry or business model based on the assumption that major synergy will be achieved, for example merging computers and telecommunications in the belief that the two industries are convergent.

The following is therefore proposed:

Proposition 1: Strategic alignment between an acquirer and a target is a CSF in an acquisition.

2.6.1.1.2 Focus on core business

Duncan and Mtar (2006) believe that shareholders want organisations to achieve economies of scale and economies of scope and this can be achieved more quickly if the organisations maintain a focus on their core businesses. Literature on core business focus will be reviewed in terms of relatedness, complementarity, geography and product focus and acquisition of customers.

2.6.1.1.2.1 Relatedness

Mergers are classified either as related or unrelated (Mueller and Sirower, 2003). Relatedness refers to resource or product-market similarity of acquired firms to their acquirers (Mueller and Sirower, 2003; King, Dalton, Daily and Covin, 2004; Lien and Klein, 2006). In the US, firms are considered to be related if they share the same two digit Standard Industry Classification (SIC) code (Doukas and Kan, 2004) or they fall into the same Federal Trade Commission (FTC) classifications of "product extension," "market extension," and "conglomerate" (Lien and Klein, 2006).

Palich, Cardinal and Miller(2000) found that relatedness has a positive impact on the post-acquisition performance of the acquirer. Meyer and Altenborg (2008) argue that relatedness is just an indication of potential synergies but realisation of these synergies is dependent on how the parties deploy the combined resources of the merged firm. Furthermore, unrelated M&As are unlikely to be affected by incompatible strategies due to the low degree of integration required whilst incompatibility in related M&As is more likely to have a negative impact on performance, leading to failure. Strategic incompatibilities are more difficult to resolve in cross-border M&As because of the influence of national political considerations. Meyer and Altenborg (2008) concur using the example of the merger of Telenor and Talia, two leading, state-owned telecom corporations from Norway and Sweden respectively. The merger was approved by analysts and the press but it was put off eleven months later. Despite the high relatedness between the two companies, they were unable to resolve their incompatible strategies, subsequently leading to the failure of the merger.

Relatedness is both internal and external; with external relatedness referring to aspects outside the two merging organisations and internal relatedness referring to aspects within the two organisations (Homburg and Bucerius, 2006). The authors found that research on internal relatedness has focussed on the merging firms’ management styles as part of the organisational culture analysis, pre-merger performance and strategic orientation, whilst external relatedness has focused on the merged firms’ target markets and their market positioning in terms of product quality and price. In addition, evidence on relatedness studies indicates that low internal relatedness is detrimental to M&A success but external relatedness yielded mixed results. Capron, Mitchell, and Swaminathan (2001) provide evidence that a high level of external relatedness with respect to target markets is associated with a high potential for synergy realization. Familiarity with the industry can significantly reduce the acquiring firm’s need to learn the business of the acquired firm (Hitt et al., 2001) and enable the acquiring firm's pre-existing resources to be productively leveraged in the new entity (King et al., 2004). This is particularly important if the acquisition requires in-depth managerial involvement because it eases the post-acquisition integration process of the acquired firm (Roberts and Berry, 1984). On the other hand, a study by Shelton (1988) reveals that significant synergy potential can also exist in the case of low external relatedness with respect to target markets.

Research on external relatedness with regards to the merging firms' market positioning has also yielded conflicting findings (Homburg and Bucerius, 2006). A study on technology products done by Hagedoorn and Duysters (2002) found beneficial effects of the merging firms' similarity (high relatedness). Other authors (Salter and Weinhold, 1978; Barney, 1986) provide theoretical arguments claiming that, in the case of a low level of relatedness with respect to market positioning, the involved firms can benefit from each other and also exploit synergies.

The following proposition is therefore posited:

Proposition 2: Relatedness of a target to its acquirer is a CSF in an acquisition.

2.6.1.1.2.2 Complementarity

Complementarity in acquisitions occurs "when merging firms have different resources, capabilities, and/or strategies that can potentially be combined or reconfigured to create value that did not exist in either firm before the acquisition" (Kim and Finkelstein, 2009 P: 619). The authors assert that other than similarity, synergies can also be derived from complementary resources. The complementarity of the acquirer and the target is one of the most significant factors in merger success (Wang and Zajac, 2007). A study done by King, Slotegraaf and Kesner (2008) showed that acquirer abnormal returns were associated with the degree of acquirer and target firm resource complementarities.

Shiers (2002) states that market complementarity in banking enables managers to effectively divert funds from one market to another. Stern and Henderson (2004) concur that diversification is advantageous in intra-industry M&As because the single-industry context facilitates resource sharing within and across a firm's product lines. A study done by Kim and Finkelstein (2009) revealed that large differences in the loan mix between merging banks offer a better opportunity for the acquirer to realise synergistic gains from complementarities. When two banks with different loan portfolios merge, the combined bank can have a more complete product portfolio, offering added convenience to customers by creating a "one-stop shop". Kim and Finkelstein (2009) amplify this argument using the example of retail banking and commercial lending in banks. Commercial lending may generate high profits from the high margins of short-term business loans but this is associated with higher operational costs caused by higher risk and additional capital requirements. On the other hand, the retail market is less profitable but its capital costs are lower due to high deposit-to-lending ratios. Banks which have big deposits operate at lower costs because deposits are banks' cheapest source of capital. It therefore follows that a merger between a commercial lending bank and a retail bank will result in lower operational costs, increased revenues and higher margins. In addition, the combined bank can utilise its resources more effectively and efficiently by using the lower retail capital cost in the more profitable commercial lending market.

Wang and Zajac (2007) argue that acquisition performance is a function of creating synergy from both similarity and complementarity. Kim and Finkelstein (2009) agree stating that similarity and complementarity should not be viewed as competing theories of acquisition performance as they are both important in enhancing acquisition performance.

In contrast, the findings of Ramaswamy (1997) show that complementarity can yield negative performance. The author found that target and bidder client mix differences yield negative performance because complementarities between wholesale and retail banking do not translate into value-enhancing resource redeployment. The competencies and skills set required in retail banking are not the same as those required in wholesale banking, hence merging banks with such different portfolios may not realise positive synergies.

This discussion leads to the following proposition:

Proposition 3: Existence of complementary resources between an acquirer and a target is a CSF in an acquisition.

2.6.1.1.2.3 Geographical and product focus

Companies can also focus on their core businesses by expanding geographically or by bringing new products on board. The geographic focus of a transaction refers to location and is classified as either domestic or cross-border (Beitel, Schiereck and Wahrenburg, 2004). Acquiring a core business, such as an active competitor or business in the same industry but operating in a different geographical region, can result in the creation of positive synergy (Hitt, Harrison, Ireland and Best, 1998) because it helps to maintain the company's strengths and capitalise on its long-term competitive advantage (Duncan and Mtar, 2006). Banks' expansion into new products and geographical areas allows them to diversify both their risks (Altunbas and Marqués, 2008; Deng and Elyasiani, 2008) and their revenue sources, thereby providing them with a buffer in the event of geographic or product-related shocks (Altunbas and Marqués, 2008). The risk reduction argument has encouraged consolidation in financial services (Akhigbe and Whyte, 2003). Banks can diversify their earnings by focussing on other sources of income other than traditional net interest revenues, and they can also derive additional benefits from a more extensive use of firm-specific assets such as brand name (Altunbas and Marqués, 2008). Altunbas and Marqués (2008) observed that in the case of large banks involved in both commercial and investment banking activities, product expansion can create economies of scope which positively impact on the ability to quickly mobilise funds in order to obtain certain investment banking deals. Diversification (product expansion) is cautioned by Winton (1999) in respect of banks whose loan books have very high downside risks because the odds of bank failure increases, particularly if the bank expands into sectors where it has no expertise. This finding is collaborated by Acharya, Hasan and Saunders (2006) who studied a number of Italian banks and found that product expansions produced even greater risks for high-risk banks. Altunbas and Marqués (2008) identified a drawback to product expansions in that institutions become more complex, making them difficult for managers to control. This leads to inefficient internal control procedures and duplicated or overlapping expenses. Furthermore, it becomes difficult to establish the right incentives and to rationalise the workforce as it is complicated to create a homogeneous corporate culture for global banks involved in both commercial and investment banking activities. Internal power struggles between divisions of diversified firms could intensify, leading to less efficient allocation of resources (Rajan, Servaes and Zingales, 2000). Investors may find it difficult to understand a more diversified financial institution and may shun its' opacity, resulting in the bank's failure to optimise its market value (Altunbas and Marqués, 2008).

The geographic focus of an M&A transaction is directly correlated to the merger success for European bank M&As, but the impact is contradictory for acquirers and targets; acquirers generate value in local deals whilst targets generate more value in cross-border deals (Beitel et al., 2004). A study by Deng and Elyasiani (2008) revealed that geographic expansion is associated with little value creation effects. Rivard and Thomas (1997) believe that geographical diversification leads to higher operating performance and earnings volatility. Various studies indicate that mergers of banks with no, or few, similarities in terms of geographical or product strategies could destroy overall shareholder value (DeLong, 2001; Amihud, DeLong and Saunders, 2002). Only bidders who focus on both geography and product-relatedness create value, claim Cornett, Hovakimian, Palia and Tehranian (2003).

The following propositions are thus derived:

Proposition 4: Expansion into new geographies is a CSF in an acquisition.

Proposition 5: Introduction of new products is a CSF in an acquisition.

2.6.1.1.2.4 Customer acquisition

Although business combinations are done for many reasons, Selden and Colvin (2003) believe that the most common reason is to acquire customers. The authors claim that whatever reason is given ultimately boils down to the customer. Therefore, acquirers must analyse and understand the customers they intend to buy. The authors' study found that only one quartile of customers who they termed "darlings" generated 200% of the economic profit and created 192% of the shareholders' value. Successful acquirers analyse the target's market by looking at its size, growth rate, geographical distribution and its product and customer segmentation (Cullinan, Le Roux and Weddigen, 2004). According to Cullinan *et al*. (2004), the acquirer can then compare the profitability, potential and vulnerability of the target's customer segments.

Hence the following proposition:

Proposition 6: Acquisition of customers is a CSF in an acquisition.

2.6.1.2 The acquisition experience of the acquirer

There is a positive impact of bidder experience on M&A success using deal-making frequency as a measure of experience (DeYoung, 1997). In contrast, Beitel *et al.* (2004), using the same measure, found no significant relationship between the experience of the acquirer and deal success. Haleblian and Finkelstein (1999) found that the relationship between acquisition experience and acquisition performance is curvilinear (U shaped) because of the effect of inexperienced acquirers who inappropriately applied the experience gained from first acquisitions to subsequent dissimilar acquisitions. Zollo and Winter (2002) collaborate this finding in their argument that high heterogeneity in organisational tasks such as acquisition decisions increases the likelihood of erroneous generalisations because of an overreliance on tacit knowledge accumulation.

Experience with domestic acquisitions is a potentially valuable source of knowledge and routines for companies willing to acquire abroad (Reuer, Shenkar and Ragozzino, 2004; Nadolska and Barkema, 2007). Although domestic acquisitions are different from foreign acquisitions, they teach companies how to screen, select, take over, and integrate already established entities into their own organisation (Nadolska and Barkema, 2007). The researchers claim that companies can acquire the ability to assess the corporate culture of the acquired company and this is valuable, not only in choosing potential targets but also informing integration decisions on whether, and to what extent, a company should change or preserve the acquired companies' existing routines - which is the same process used in foreign acquisitions.

However, there is a limit to the learning capability in that it can only achieve positive results if it was obtained from related ventures (Vermeulen and Barkema, 2001). Nodolska and Barkema (2007) agree that although experience in domestic M&As is helpful, the success rate of foreign acquisitions may be determined by a company's international acquisition experience because of the complex nature of foreign acquisitions. The authors note that foreign acquisitions involve different national cultures, different processes and strategies, and are done in different economic and regulatory environments making it difficult to develop ways (codes) of performing foreign acquisitions.

Haleblian, Kim and Rajagopalan (2006) examined acquisition likelihood in a sample of banking industry acquisitions from 1988 through 2001 and found that both acquisition experience and focal acquisition performance positively influenced the likelihood of a firm making a subsequent acquisition. The authors also found that a stronger acquisition performance enhanced the positive effect of acquisition experience on subsequent likely acquisitions.

Various scholars have found that it is not the M&A frequency but instead a codification of M&A-related knowledge which leads to M&A success (Aiello and Watkins, 2000; Zollo and Leshchinkskii, 2000; Vermeulen and Barkema, 2001).

Aiello and Watkins (2000) amplified their argument using the example of private equity practitioners. The authors assert that Leveraged Buy-out (LBO) entities' success can be attributed to the lessons they learn from previous deals including missed opportunities. The authors advise acquirers to learn from both successful and failed bids by seeking answers as follows;

- Failed deal
  - "Was missing this acquisition a win or a loss for the company?
  - If it was a loss, what could we have done differently?
  - If it was a win, what did we do well that kept us out of the transaction?
  - How could we have spotted the flaws earlier and spent less time on this opportunity?"

- Successful deal
  - "What did we do well in the process?
  - What problems did we miss and when?
  - How can we improve our process to uncover those problems earlier?
  - How does what we bought compare with what we thought we were buying"?

(Aiello and Watkins, 2000 P:106)

The proposition emanating from the above discussion is:

Proposition 7: The acquisition experience of the acquirer is a CSF in an acquisition.

2.6.1.3 Due diligence

Due diligence is done to unearth the value and the risks of the target company and the outcome of the investigation is used to set the M&A negotiation parameters (Angwin, 2001). Due diligence results are valuable to the acquirer as they assist in making decisions on pricing, deal structure, the mechanics of the deal and how to integrate the target (Robins, 2008). It also uncovers issues which could potentially lead to the failure of the acquisition during the post-acquisition integration phase, such as pending litigation, contingent liabilities, inaccurate financials and unethical practices (Angwin, 2001). Due diligence helps to determine whether it is appropriate to continue pursuing a deal (Robins, 2008).

> "…. Acquirers have wiped out more value off their market capitalisation
> through failures in due diligence than through lapses in any other part
> of the deal process"
>
> (Aiello and Watkins, 2000 P:103).

Cullinan, Le Roux and Weddigen (2004) studied twenty companies whose M&As showed high quality due diligence and found that they go beyond data verification and consider the broader strategic rationale. Successful companies take a disciplined and objective approach by probing strengths and weaknesses and analysing unreliable assumptions. Their senior executives seriously consider the due diligence results to an extent of walking away from a deal any time adverse information comes to the fore. They were consistent in the due diligence approach by answering four basic questions;

1. "What are we really buying?
2. What is the target's stand-alone value?
3. Where are the synergies and the skeletons?
4. What is our walk away price?"

   (Cullinan et al., 2004 P:97)

Angwin (2001) found acquirers of different nationalities tended to rely on external advisors for specific issues. The use of such advisors injects external knowledge into the process and lessens the path of dependence in learning experience during the due diligence process itself.

(Perry and Herd, 2004), gave four "best practices" of managing risk in M&As.

- Call on the experts – these help to get beyond the numbers and challenge traditional assumptions about risk and value. Acquirers should pull together expert resources (both internal and external) which understand base business value and growth and can evaluate cost and revenue synergies.

- Trust but verify – it is tedious to decouple an acquired unit's business processes from its parent's which usually results in negligible or negative net synergy value. If the former parent is paid a fee by the acquirer to continue to provide basic back-office services throughout the transition period, include performance thresholds into the service agreement with the seller, and then aggressively monitor the seller's performance.

- Focus on what matters – M&A success usually depends upon getting a few things right e.g. aggressive market penetration strategy or rationalising the supply chain. These matters are different for every deal and should be managed differently according to the value added to the deal. Identify the high priority and/or complex initiatives and consider their associated risk factors.

- Orchestrate the unveiling - first impressions matter, plan for and orchestrate the public birth of the transaction. Work at gaining the support of the analyst community when a deal is made public by giving them a follow-up discussion about the acquirer's high priority integration initiatives, key risk factors and risk mitigation plans.

The above discussion gives rise to the following proposition:

Proposition 8: Conducting a thorough due diligence is a CSF in an acquisition.

2.6.1.4 Deal Structure

Deal structure covers the size of the target, the payment method and the acquisition price and premium.

2.6.1.4.1 Size of the target

The relative asset size of a target in comparison to the acquirer only impacts the target (Beitel et al., 2004). Although scale effects may be smaller, it is easier to create value in the acquisition of smaller targets because they are less complex (Bower, 2001; Beitel et al., 2004; Chatterjee, 2009). Beitel *et al.* (2004) found that if a target is small in relation to its acquirer, the shareholders of the target obtain excess returns. The study further revealed that large acquirers with more potential for economies of scale do not significantly impact value creation and the same is evident in the combined entity.

The following proposition is put forth:

Proposition 9: A larger acquirer in relation to the target is a CSF in an acquisition.

2.6.1.4.2 Payment method

An acquiring firm can pay for an acquisition using either cash or shares (also known as stock or equity respectively), depending on the most profitable method (King et al., 2004). Cash is used if the acquiring firm believes that the acquirer's stock is undervalued and equity is used if it is believed that the acquirer's shares are overvalued (Beitel et al., 2004; King et al., 2004) . It, therefore, follows that the finance of acquisitions using cash is a sign that the post-acquisition performance will be strong (King et al., 2004) and the use of equity is a signal that the stock is overvalued and vice versa (Beitel et al., 2004). The financing decision can have a major impact on the acquirer's ownership structure, financial leverage and subsequent future financing decisions (Faccio and Masulis, 2005). The authors argue that the financing decision can also affect the corporate control, risk levels, tax, and cash flows for both acquirers and targets.

Using either cash or equity as consideration in M&A deals has conflicting effects (Faccio and Masulis, 2005). Most acquirers do not possess adequate cash and liquid assets and resort to purchasing targets using debt. The authors believe that the use of either debt or cash involves a trade-off between control dilution associated with issuing equity and increasing the risk of financial distress by issuing debt. The use of cash is, therefore, influenced by an acquirer's existing gearing and its debt capacity. The use of equity on the other hand is influenced by the desire to maintain the existing corporate structure.

Faccio and Masulis (2005) further claim that sellers face a trade-off between cash and equity. Equity offers tax benefits since shareholders of the target can defer their tax liabilities until they sell their equity holdings. On the other hand, cash consideration gives liquidity to shareholders and minimises the risk associated with diluting the voting power of a dominant shareholder who becomes a minority shareholder after the deal. Faccio and Masulis (2005) add that acquirers who have a major shareholder are inclined to use cash consideration if the use of equity will result into the loss of control, whilst acquirers with concentrated ownership are open to equity financing. However, cross border deals have an investment decision dimension in that investors may have home-country bias in the construction of their investment portfolios (Grinblatt and Keloharju, 2001).

Studies on the effect of payment methods on M&A performance also shows contradictory results. Eckbo and Thorburn (2000) examined acquisitions of Canadian firms by domestic and foreign bidders and found that returns were highest for domestic bidders who financed acquisitions with stock. Heron and Lie (2002) found no material differences in operating performance between cash and stock deals, although stock acquisitions generated lower announcement and post-acquisition market returns compared to cash acquisitions. Fuller, Netter, and Stegemoller (2002) studied a sample of serial acquirers and found that regardless of payment method, public acquisitions resulted in insignificant bidder returns for cash or combination deals, and significantly negative returns for stock deals. Furthermore, private acquisitions increased bidder performance regardless of payment method but those returns were greater when stock financing was used. Carow, Heron and Saxon (2004) found that cash-financed deals are more beneficial, or at least less detrimental, to bidding firms' shareholders.

The following proposition is put forth:

Proposition 10: The purchase of targets using stock is a CSF for acquirers in M&As.

2.6.1.4.3 Acquisition price

An acquisition premium is the difference between the acquiring firm's purchase price of the target firm's stock and the target's pre-acquisition stock price, divided by the target's pre-acquisition stock price (Haleblian et al., 2009) or "the price paid for a target firm that exceeds its pre-acquisition market value" (Hitt, King, Krishnan, Makri, Schijven, Shimizu et al., 2009 P:524). Hitt et al. (2009) explain that premiums are paid to entice target shareholders to sell their shares with the view that the merger will generate synergies. The premium should never be greater than the envisaged synergies otherwise the merger's performance will be negative.

It is usually not easy to realise the potential synergies because of the challenges of achieving integration (Sirower, 2000). Bidders pay around 20% to 30% premium on acquisitions (Laamanen, 2007) despite the difficulties associated with achieving synergies. The pressure placed on managers to achieve synergies forces them to take cost-cutting measures (Hitt et al., 2009) such as restructuring processes (Cascio, Young and Morris, 1997) and staff retrenchments (Krishnan, Hitt and Park, 2007). The loss of employees is detrimental to the merged firm because it erodes the firm's human capital (Cording, Christmann and King, 2008).

Eccles *et al.* (1999) and Viscio *et al.* (1999) argue that acquisition premium does not cause the deal to succeed or fail because realisation of synergies is company dependent. Some companies pay a high premium and report positive returns whilst others pay a low premium and exhibit negative returns (Eccles et al., 1999). The authors contend that the premium question should relate to what the deal is worth to the acquiring company and this should determine the maximum price the company is prepared to pay, beyond which it should walk away from the deal.

Arzac (2005)'s equation below denotes the relationship between premium paid, synergies and M&A gains of company A (acquirer) and company B (target).

Premium = $P_B - V_B$

Where:

P_B = price paid for company B.

V_B = value of company B

Acquirer's gain = Synergies – Premium

The total synergies are:

Synergies = Acquirer's gain + target's gain

Arzac (2005) explains that the premium is the target shareholders' gain, and the acquirer shareholders' gain or loss is represented by the difference between the total synergies obtained and the premium paid. The author's equations illustrate that the acquirer cannot give more value to the target than what the acquisition will create, otherwise it will harm its own shareholders. Eccles *et al.* (1999) collaborates this argument, asserting that the acquisition price should be compared to the true value of the acquisition which is made up of intrinsic value, market value, premium value gap and the synergy value.

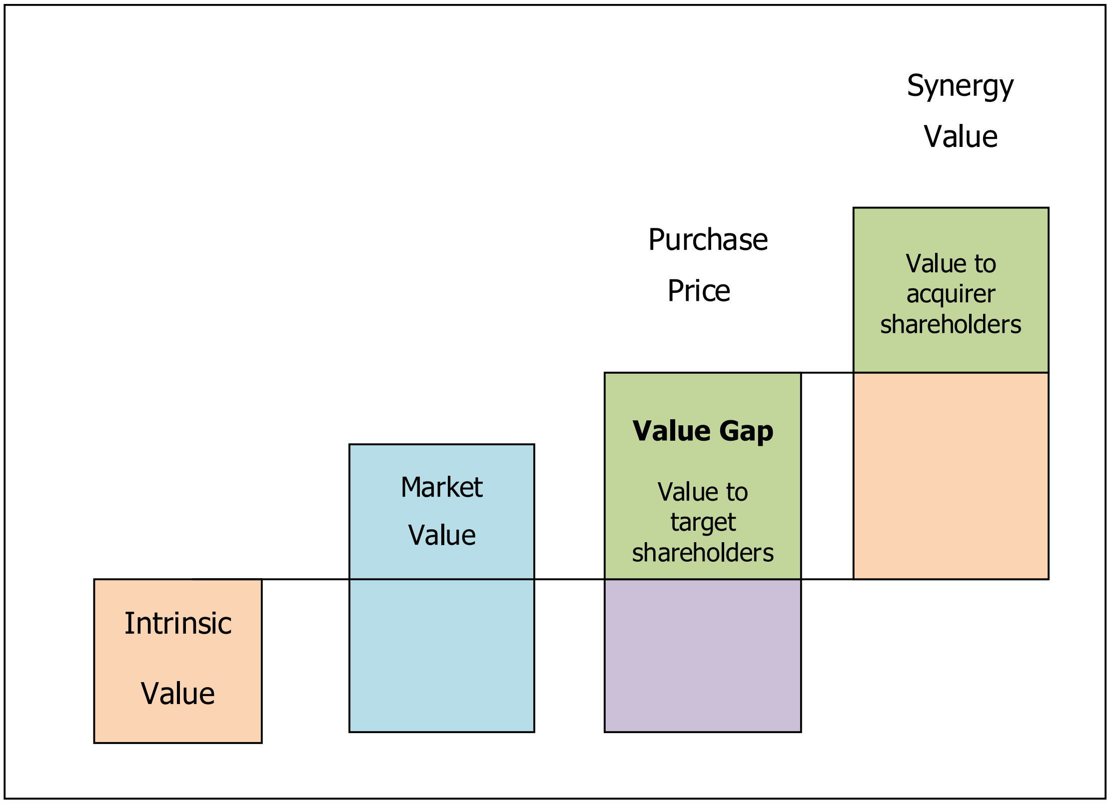

Figure 2: The true value of an acquisition

Source: Eccles et al. (1999)

Eccles *et al.* (1999) defined the above values as follows;

Intrinsic value – basic value of the company based on the net present value (NPV) of expected future cash flows.

Market value – consists of the intrinsic value plus the premium added by market participants.

Purchase price – the price which the acquirer anticipates to pay for its bid to be accepted by the target.

Synergy value - the NPV of the cash flows which will result from the improvements made after the merger.

Value gap – the difference between the intrinsic value and the purchase price.

According to Eccles *et al.* (1999), the purchase price of an acquisition is usually higher than the intrinsic value of the target company. The acquirer should ensure that there are enough cost savings and revenue generators (synergy value) to justify the premium. This will reduce the risk of having the target company's shareholders getting all the value created by the deal.

This discussion leads to the following proposition:

Proposition 11: Paying a premium which is less than the synergistic value of a target is a CSF in an acquisition.

2.6.1.5 Communication

Communication is the most important factor throughout the entire M&A process (Appelbaum, Gandell, Yortis, Proper and Jobin, 2000b). Employees' emotions range from fear and confusion to acceptance and excitement when news about an M&A emerges (Messmer, 2006). Employees get distracted, seeking information on how the merger will affect them and their careers, or seeking alternative jobs and thereby sacrificing customer service in the process (Nguyen and Kleiner, 2003). Providing clear, consistent, factual, sympathetic and up-to-date information helps employees to cope with merger stress and this, in turn, increases their productivity (Nguyen and Kleiner, 2003). Messmer (2006) identified two different strategies to be used by management in dealing with the anxiety likely to be created among employees by an M&A. These are early communication and staff involvement. The authors further explain that management should communicate early with employees and be honest and direct, as well as inform them of a realistic assessment of future opportunities and obstacles, such as career diversification and retrenchment plans. According to Messmer (2006), this will reduce the risk of rumours, misunderstandings or wrong expectations among groups and individuals.

Delayed communication can cause apprehension among employees and result in hostility towards the merger, making future commuication efforts difficult to carrry out (Nguyen and Kleiner, 2003). The authors argue that senior managers from both organisations must agree on the vision, goals, values and policies of the new organisation and communicate this new strategy to the entire organisation. If communication is not increased during the merger process, it may lead to increased absenteeism, employee turnover and a general reduction in productivity (Appelbaum, Lefrancois, Tonna and Shapiro, 2007a).

Customers also get affected by delayed communications on products and services, leading them to switch to competitors due to uncertainty (Nguyen and Kleiner, 2003). The authors elaborate the importance of communication by advising acquirers to communicate decisions pertaining to products with customers in order to win their confidence and to assure them there will be no service interruptions from salespeople and support staff.

(Appelbaum, Lefrancois, Tonna and Shapiro,(2007a) refer to communication guidelines proposed by Davy, Kinicki, Scheck and Kilro (1989) to be used for effective communications throughout the merger process. They are;

- "The information should be timely.
- The information should be as comprehensive as possible.
- The information should be repeated in many media.
- Communications must be perceived as credible by employees.
- The rationale for organisational changes should be communicated.
- The communication programme needs to be well planned and should continue throughout the period of organisational transition".

(Davy, Kinicki, Scheck and Kilro (1989) in Appelbaum et al., 2007a P:650-651)

The following proposition is therefore put forward:

Proposition 12: Effective and extensive communication is a CSF in an acquisition.

2.6.1.6 Selecting new leadership

The replacement of top management should be carefully handled. Top management replacement yields the highest level of negative results if the performance of the company prior to the acquisition was average (Zollo and Singh, 2004). The authors found that the results are also negative at high pre-acquisition performance levels but they are positive for low-performing targets.

The following proposition is therefore put forward:

Proposition 13: Careful selection of the target's leadership is a CSF in an acquisition.

2.6.2 Post-acquisition integration process

One of the hardest tasks in business is getting an M&A deal to work (Perry and Herd, 2004), and the likelihood of merger failure is greatest during the integration process (Simpson, 2000). Integration fails because of inappropriate integration strategy and management, lack of clear vision, cultural distance and ineffective communication (Nguyen and Kleiner, 2003). The success factors in the post-merger include putting together a strong integration structure and appropriately integrating diverse corporate cultures, as well as the speed of integration.

2.6.2.1 Strong integration structure

> "Integration management is a full-time job and needs to be recognised as a distinct business function, just like operations, marketing and finance"
>
> (Ashkenas, DeMonaco and Francis, 1998 P: 9)

Although senior managers are deeply involved in negotiating M&A deals, they usually shift their focus once the deal is closed (Simpson, 2000). According to Simpson (2000), continuous identification and capturing of value happens during the integration period and success in this area requires the involvement of senior management. An effective top management team has the ability to diffuse post-acquisition conflicts and better coordinate integration processes and business units (Vasilaki and O'Regan, 2008). Middle managers are usually tasked with integrating the organisation but are usually not empowered to commission resources or to make critical decisions (Nguyen and Kleiner, 2003). The authors believe that CEOs should be fully involved by leading from the front and being accessible to all staff. In order to maintain the value of a merger, managers should be actively involved in the integration process and steer the organisation towards the accomplishment of its strategic goals as quickly as possible (Gadiesh et al., 2003).

Ashkenas *et al.* (1998) studied the way integrations were done at General Electric, one of the top acquirers in the world, and concluded that integration was not a distinct phase of a deal that begins after the documents are signed, but rather begins with the due diligence process. An integration team that will work with management from both companies should be set up as soon as the deal is announced (Nguyen and Kleiner, 2003). According to Inkpen, Sundaram and Rockwood (2000), the purpose of the integration team is to plan, coordinate and implement the integration process. This team must comprise of staff who have influence and credibility within the organisation (Appelbaum et al., 2000b).

Successful integration is not about how well the business is integrated, but rather about integrating a firm at an appropriate level because an inappropriate level of integration might be detrimental (Child, Faulkner and Pitkethly in Duncan and Mtar, 2006). The authors found that an acquirer can sit anywhere on an integration continuum ranging from a low integration to partial and then total integration. There are four degrees of integration from which firms usually choose from; total autonomy, restructuring followed by financial controls, centralisation or integration of key functions and full integration (Hubbard in Duncan and Mtar, 2006).

The above discussion leads to the following propositions being posited:

Proposition 14: A strong integration structure is a CSF in an acquisition.

Proposition 15: Involvement of top management in the integration process is a CSF in an acquisition.

2.6.2.2 Integration of diverse corporate cultures

Post-merger integration is not only merging business activities and formal structures, but also tackling socio-cultural and organisational aspects (Morosini and Steger (2003) in Maire and Collerette, 2010). Organisational culture is developed through shared experiences usually over a long period of time (Weber and Camerer, 2003). A country's ideologies and its industrial relations systems have an effect on the national distinctiveness of organisations (Salama et al., 2003). National cultural differences are due to factors such as different values, risk propensity and acceptance of uncertainty whilst corporate cultural differences arise from factors such as organisational routines, managerial practices and styles and communication systems (Shimizu et al., 2004). Differences between companies are due to different philosophies, visions and styles (Nguyen and Kleiner, 2003). The authors observed that most M&As fail during the integration process and identified eight failure factors, one of them being cultural differences. Cultural incompatibility is given as the single biggest reason for the low performance which may arise, resulting in the departure of top management and exacerbates conflicts associated with consolidating businesses (Bijlsma-Frankema, 2001). M&A scholars have realised that cultural matters take a back seat in M&A evaluations when compared with product, market and synergy analysis (Nguyen and Kleiner, 2003; Weber and Camerer, 2003; Appelbaum et al., 2007b) but this is an oversight as culture is pervasive (Weber and Camerer, 2003). It is for this reason that the M&A literature on culture will be explored in detail.

Integrating two different organisations into one entity can be difficult and time consuming (Salama et al., 2003). Nguyen and Kleiner (2003) observed that it takes between five and seven years for parties involved in M&As to feel part of the new company. MacDonald and Herd (2003) argue that it is imperative to promote and nurture a culture that will retain good people and this includes understanding different ways of dealing with issues and finding some common ground.

Various M&A scholars and researchers cite the merger between Daimler-Benz (German) and Chrysler (American) as an example of merger that failed due to cultural incompatibility (Bower, 2001; Nguyen and Kleiner, 2003; Weber and Camerer, 2003). Weber and Camerer (2003) claim that both Daimler-Benz and Chrysler were performing well before the merger, with Chrysler being the most profitable American automaker. According to the authors, the merger was well received by the market and stakeholders from both companies but shortly after the merger, Chrysler's performance started dipping.

Nguyen and Kleiner (2003) note that the management and operations of Daimler-Benz and Chrysler were not properly integrated owing to the different work approaches of Germans and Americans. Daimler-Benz management was very structured and formal whilst that of Chrysler was more relaxed and flexible (Nguyen and Kleiner, 2003). The Germans worked late hours and smoked and drank wine with lunch whilst the Americans banned smoking and alcohol in their facilities and worked hard to meet deadlines without necessarily working late hours (Bower, 2001). The two firms were unable even to agree on administrative issues such as pay scales and travel expenses (Nguyen and Kleiner, 2003). Daimler-Benz was more focussed on engineering and Chrysler was more sales and marketing oriented (Bower, 2001). A lot of key Chrysler executives and engineers resigned due to their unwillingness to work under the Germans' bureaucratic systems (Bower, 2001) leading to Daimler-Benz employees' dissatisfaction with the Chrysler division performance (Nguyen and Kleiner, 2003).

However, M&A reviews done by Schoenberg (2000), Schweiger and Goulet (2000) and Teerkangas and Very (2006), have found some inconsistency in literature and called for further theoretical and empirical research into the cultural dynamics of M&As. While some studies reported negative effects on the culture-performance relationship of firms engaged in M&As, others showed positive outcomes. Stahl and Voigt (2008) believe that the effect of culture on performance is more complicated than indicated in earlier literature. The authors further argue that the contradictory findings in previous research were due to the fact that M&A researchers had compared "apples to oranges" in their analysis. They proposed that a distinction be made between national or organisational culture (different levels of culture), between accounting and stock market-based measures (different performance measures) and between acquiring and target firms (type of organisations). Attention should also be drawn to the process by which cultural differences affect M&As.

Stahl and Voigt (2008) attempted to reconcile these conflicting perspectives and findings by studying the mechanisms that influence the culture-performance relationship in M&As. The researchers found that cultural differences affect socio-cultural integration, synergy realisation and shareholder value in different, and sometimes opposing, ways. The results were dependent on aspects of the acquirer-target relationship such as the magnitude of the cultural differences of the two companies and the degree of relatedness. The authors concluded that cultural differences matter in M&As but they appear to represent a "double-edged sword" or "mixed blessing". They may yield either positive or negative results in M&A performance depending on the degree of relatedness and the dimension of cultural differences which separate the firms. Since related M&As require higher levels of integration, cultural differences, especially organisational culture, can create obstacles in integration by worsening the socio-cultural problems encountered during the post-merger period. On the other hand, there was a positive outcome on synergy realisation for M&As which required lower levels of cultural integration, especially national level cultural differences in cross-border M&As. This finding was collaborated by Chakrabarti, Gupta-Mukherjee and

Jayaraman (2008), who investigated the effect of cultural distance on long-term and short-term performance of cross-border M&As. The study found that cross-border acquisitions perform better in the long run if the acquirer and the target come from countries that are culturally more disparate. This is because cultural differences may enhance the potential synergies in resource sharing and learning although it is achieved at the cost of increased integration challenges. The study by Chakrabarti *et al*. (2008) revealed that friendly deals and cash acquisitions do better in the long run. There were also additional synergies that could be derived when acquiring firms from strong economic systems as opposed to acquiring targets in systems with weaker economies. Contrary to Stahl and Voigt (2008), Chakrabarti *et al*. (2008) argue that the culture-performance results are driven by the overall cultural distance rather than dimension-wise differences. The authors note that this is contrary to the general perception that cultural disparity between two merging partners, including cross border mergers, is one of the reasons for the failure of M&As.

Nahavandi and Malekzadeh (1988) adopted the term "acculturation" to describe the cultural changes resulting from the interaction of one organisational culture with another, including the ways in which two groups adapt to each other and resolve emergent conflict. The authors incorporated the model developed by (Berry, 1983; 1984) which identifies four modes through which "acculturation"' takes place, in order to identify the optimal model of organisational culture to adopt. These "modes" are determined by the type, size, and cultural characteristics of both the acquirer and the target, and they are:

- Integration - when members of the acquired firm want to preserve their culture and identity and want to remain independent. This usually leads to structural assimilation of two cultures, but little cultural and behavioural assimilation (Berry, 1983).

- Assimilation: is always a unilateral process in which one group willingly adopts the identity and culture of the other (Berry, 1983; 1984). Overall, the target firm will be absorbed into the acquirer, and will cease to exist as a cultural identity.

- Separation: involves attempting to preserve one's culture and practices by remaining separate and independent from the dominant group (Berry, 1983). There will be minimal cultural exchanges between the two groups, and each will function independently.

- Deculturation: involves losing cultural and psychological contact with both one's group and the other group, and involves remaining an outcast of both (Sales and Mirvis, 1984).

		How much do members of the acquired firm value preservation of their own culture	
		Very much	Not at all
Perception of the attractiveness of the acquirer	Very attractive	Integration	Assimilation
	Not attractive	Separation	Deculturation

Figure 3: Acquired firm's modes of Acculturation

Source: Nahavandi and Malekzadeh (1988)'s modified version of Berry's model (1983)

Culture: degree of multiculturalism

Diversification strategy: degree of relatedness of firms.		Multicultural	Unicultural
	Related	Integration	Assimilation
	Unrelated	Separation	Deculturation

Figure 4: Acquirer’s modes of Acculturation

Source: Nahavandi and Malekzadeh (1988)

Nahavandi and Malekzadeh (1988) acknowledge that there is no optimal way to deal with various merger situations because all firms involved in M&As have different characteristics. As illustrated in Figure 3, the first step involves choosing a “mode’” of integration depending on how attractive the acquirer is to members of the target and relative to how much the members of the acquired firm value their culture. In the second step, the degree of multiculturalism of the two firms and their degree of relatedness (in operational terms) is measured to choose the optimal “mode” as illustrated in Figure 4. Nahavandi and Malekzadeh (1988) stipulate that a successful merger should be developed encompassing the congruence between the employees' distinct preferences about the implementation strategy of the merger, other than only through financial and strategic analysis and planning.

Based on the above discussion the following proposition is put forth:

Proposition 16: Appropriate integration of diverse corporate cultures is a CSF in an acquisition.

2.6.2.3 Speed of integration

Speed of integration refers to the timeframe required to integrate two companies' systems, structures, activities, and processes (Homburg and Bucerius, 2006). Studies done by management consulting firms have identified integration speed as a success factor on M&A performance since quick implementation minimises uncertainty for the stakeholders of the merged firms (PricewaterhouseCoopers, 2000; Fujitsu Consulting, 2001; Bert, MacDonald and Herd, 2003). A post-merger process should be done in a way that captures as much value as possible, as quickly as possible (Viscio et al., 1999). In order to maintain the value of a merger, managers should actively be involved in the integration process and steer the organisation towards the accomplishment of its strategic goals as quickly as possible (Gadiesh et al., 2003).

Based on a study done as consultants at A.T. Kearney, Bert, MacDonald and Herd (2003) found that a company should ideally make a deal work in just two years. The study revealed that non-manufacturing companies realise 85% of the synergies in the first year and the rest in the second year. Manufacturing companies realise 70% and 30% in the first and second years respectively. However, a study done by Homburg and Bucerius (2006) found that the speed of integration is both beneficial and detrimental to the success of M&As depending on the level of relatedness of the merging firms. The authors found that quick integration yields positive results in low-external or high-internal related deals and the opposite is true for quick integration in high-external or low-internal related transactions.

This derives the following proposition:

Proposition 17: Quick integration of the acquirer and the target is a CSF in an acquisition.

2.6.3 External factors

Certain factors which influence the success of M&As are beyond the control of an acquirer and no amount of due diligence or risk mitigation can foresee or prevent such occurrences (Epstein, 2005). These include changes in economic conditions causing drastic changes in a company or industry, unforeseen changes in interest rates or an unfavourable political climate. Epstein (2005) advises companies to carefully evaluate M&As because a poor merger may appear to be more successful in a strong economy whilst a strong merger may look weak under poor economic conditions.

The following proposition is put forth:

Proposition 18: Absence of external factors is a CSF in an acquisition.

2.7 Performance Measurement

2.7.1 Introduction

M&A deals are measured to determine whether the transaction was successful or not. The analysis of the financial performance of M&A deals will be discussed in this section. There is currently no agreed way of measuring M&A performance (Javidan et al., 2004; King et al., 2004; Larsson & Finkelstein, 1999).

Analysis of banks' performance follows two main empirical methods; event study-type methodology, which analyses the changes in share prices around the period of the merger announcement and accounting ratios such as return on assets (Houston et al., 2001; Altunbas and Marqués, 2008).

2.7.2 Event studies

Event studies try to analyse stock market returns after a bank merger is announced to ascertain whether it creates shareholder value by cumulated stock market returns for the shareholders of the target, the bidder and/or the combined entity (Altunbas and Marqués, 2008). A merger is assumed to create value if the combined value of the bidder and the target increases on the announcement of the merger (Houston et al., 2001). A number of studies conducted on cross-border deals in Europe on bank M&As have found that banks accrue significant stock market valuation and operating performance gains (Cybo-Ottone and Murgia, 2000; Diaz, Olalla and Azofra, 2004; Beitel and Schiereck, 2006), especially for product-focused transactions (Beitel et al., 2004). Studies in the US have yielded mixed or negative results and show that most bank mergers create shareholder value only for the shareholders of the target institution at the expense of the bidding institution (Houston et al., 2001; Beitel and Schiereck, 2006) which Houston *et al.* (2001) refer to as "wealth redistribution". Houston *et al.* (2001) claim that stock return analysis fail to find gains from acquisitions even if they exist because of various reasons, including;

- Mixed information - merger announcements mix information concerning the proposed acquisition with information about the financing of the acquisition. Stock offerings are generally interpreted as signals that the issuer's stock is overvalued. It follows that the negative announcement returns to bidding firms could be partly attributable to negative signalling unrelated to the value created by the merger. This is consistent with the views of Carow, Heron and Saxton (2004) who found that cash-financed deals are more beneficial, or at least less detrimental, to bidding firms' shareholders.

- M&A anticipation – acquisitions are usually anticipated during consolidation waves and get priced in by the markets. Consequently, the positive merger effects do not reflect in announcement-date stock returns. The combined stock returns of the bidder and target on the announcement of an acquisition can understate any value gains associated with a merger.

2.7.3 Accounting measures

Accounting measures examine changes in the merged banks' post-merger accounting profits using Return on Assets (ROA) or Return on Equity (ROE) or operating costs (Houston et al., 2001). The authors claim that the merger is considered to have generated improved performance if these changes are superior to those of comparable banks that were not involved in merger activity. Accounting ratios of performance also measure indicators of scale economies which is one of the main justifications for M&As (Altunbas and Marqués, 2008). US studies find that these potential efficiency gains resulting from size are rarely realised (Berger, DeYoung, Genay and Udell, 2000). This is probably due to the fact that some efficiency gains may take a long time to accrue (Houston et al., 2001; Focarelli and Panetta, 2003; Diaz et al., 2004) and the difficulty associated with integrating broadly dissimilar organisations (Vander Vennet, 2002). This is collaborated by the finding of Houston *et al.* (2001) that accounting measures yield mixed results attributable to the lags between the completion of M&As and the realisation of operating improvements (Houston et al., 2001). Restructuring and consolidation costs can lead to deterioration in short-term performance even though long-term performance turns out to be positive (Houston et al., 2001). The authors believe that this problem is exacerbated by the fact that many banks make multiple acquisitions over a short number of years. Accounting results are also distorted by accounting data which is governed by merger accounting rules. Assets are written up to market value in purchase accounting, resulting in high accounting expenses such as depreciation.

2.7.4 Conclusion

There is currently no consensus on how to measure M&A performance. Event studies and accounting measures are used to determine whether an M&A transaction was successful or not. Both methods have mixed results and the results generated are inconclusive.

2.8 Conclusion of Literature Review

The literature review focussed on the CSFs in M&As followed by performance measurement of M&As. This review revealed that several M&A transactions fail to achieve the financial objectives of the deal. The reasons for these failures emanate from acquirers' inability to deal with the various facets of M&As both before and after the event. CSFs for the pre-merger phase include strategic vision and fit, the M&A experience of the acquirer, due diligence, deal structure, communication and selection of new leadership. CSFs for the post-merger phase include a strong integration structure, appropriate integration of diverse corporate cultures and integration speed. M&A success rates can also be affected by external factors such as general economic conditions.

2.8.1 Research Propositions

Proposition 1: Strategic alignment between an acquirer and a target is a CSF in an acquisition.

Proposition 2: Relatedness of a target to its acquirer is a CSF in an acquisition.

Proposition 3: Existence of complementary resources between an acquirer and a target is a CSF in an acquisition.

Proposition 4: Expansion into new geographies is a CSF in an acquisition.

Proposition 5: Introduction of new products is a CSF in an acquisition.

Proposition 6: Acquisition of customers is a CSF in an acquisition.

Proposition 7: The acquisition experience of the acquirer is a CSF in an acquisition.

Proposition 8: Conducting a thorough due diligence is a CSF in an acquisition.

Proposition 9: A larger acquirer in relation to the target is a CSF in an acquisition.

Proposition 10: The purchase of targets using stock is a CSF for acquirers in M&As.

Proposition 11: Paying a premium which is less than the synergistic value of a target is a CSF in an acquisition.

Proposition 12: Effective and extensive communication is a CSF in an acquisition.

Proposition 13: Careful selection of the target's leadership is a CSF in an acquisition.

Proposition 14: A strong integration structure a CSF in an acquisition.

Proposition 15: Involvement of top management in the integration process is a CSF in an acquisition.

Proposition 16: Appropriate integration of diverse corporate cultures is a CSF in an acquisition.

Proposition 17: Quick integration of the acquirer and the target is a CSF in an acquisition.

Proposition 18: Absence of external factors is a CSF in an acquisition.

CHAPTER 3: RESEARCH METHODOLOGY

This section outlines the methodology which was used to conduct this research. Firstly, the literature around qualitative research will be discussed, followed by a review of the research design and the research instrument that was used. Issues of data collection and analysis will be provided followed by a discussion on the validity and reliability of this study.

3.1 Research methodology / paradigm

Given that the research was both exploratory and descriptive, the qualitative methodology was the most appropriate methodology for this research. Qualitative research is defined as the process of gaining insight into people's behaviours, value systems, inspirations and ambitions by analysing unstructured information such as interview transcripts, emails and feedback forms (QSR International, 2007). Qualitative research is used for the purposes of describing, interpreting, verifying and evaluating phenomenon (Peshkin (1993) in Leedy and Ormrod, 2010). The study examined the CSFs for M&As in the real world (natural setting) including the factors' associated complexities. Qualitative research is appropriate for "phenomena that occur in natural setting" and it involves "studying those phenomena in their complexity" (Leedy and Ormrod, 2010 P:135).

The benefits of the qualitative research methodology include enabling the researcher to "study meanings" and "tap into the perspectives and interpretations of participants" (Willig, 2008 P: 158). The interview questions were semi-structured to allow for further probes (Welman, Kruger and Mitchell, 2005) and allow for the interview data to be analysed in a variety of ways (Willig, 2008). As the research findings unfolded, the research was modified accordingly (Willig, 2008).

3.2 Research Design

The case study approach was best suited for this study. According to Yin (2009), other than decisions, case studies can also be based on individuals, organisations, processes, programmes, neighbourhoods, institutions and events. Yin (2009) argues that case studies are appropriate when (a) addressing "how" and "why" questions, (b) the researcher has little control over events, and (c) the focus is on a contemporary phenomenon with a real-life context.

> "The more that the questions seek to explain some present circumstance (e.g. "how" and "why" some social phenomenon works), the more that the case study method will be relevant"
>
> (Yin, 2009 P:4).

The study examined why Barclays is said to have succeeded in its acquisition of Absa and how the transaction was done and implemented. This required an extensive and in-depth description of this transaction. Yin (2009) asserts that the case study method is also relevant for studies requiring an extensive and in-depth description of some social phenomenon. Case studies essentially try to reveal why a decision, or a set of decisions, was taken, how they were implemented and what the result was (Schramm 1971 in Yin, 2009).

The case study was based on a single case, a single case is appropriate in testing a well-formulated theory (Yin, 2009). The researcher tested M&A CSF theories on the M&A transaction between Absa and Barclays. The unit of analysis was an organisation, Absa. Since the case study was based on the global nature of Absa, it was designed as a holistic case study (Yin, 2009).

According to Yin (2009), a holistic case study design works well for studies which have no logical sub-units or when the theory underlying the study itself is holistic. The author explains that a holistic case study risks becoming an abstract study with insufficiently clear measures or data, and its results are unlikely to be compelling. Furthermore, unknown to the researcher, the entire nature of the case study may change during the course of the study giving a complete different orientation from the one planned.

3.3 Case site and sample

3.3.1 Case site

The respondents were drawn from Absa executives who were directly involved in the transaction and were also based at any of the bank's offices in the Gauteng Province of South Africa. Some former executives who were also based in Gauteng were contacted. An external market analyst was included in the sample.

3.3.2 Sample and sampling method

The researcher endeavoured to conduct 20-25 in-depth interviews with current and former Absa executives. An external market analyst who follows Absa was also interviewed to obtain an independent view of the case. This was a purposive sample based on the assumption that the selected executives were aware of, or privy to information on Barclays' acquisition of Absa.

The respondents are depicted in the table 1:

Table 1: Profile of respondents

Description of respondent	Integration work stream
Accountable Executive	Retail
Functional Expert	Regulatory liaison
Head of Integration	Absa Team overall
Business Owner	Retail Banking Segments
Programme Manager	Compliance
Work Stream Leader	Legal
Programme Manager	Private Bank
Programme Manager	Sarbanes Oxley
Work Stream Leader	Risk
Business Owner	Group Marketing & Personal Bank
Business Owner	Tax, Finance, Treasury & Legal
Business Owner	Operations , IT & HR
Business Owner	Financial Services
Accountable Executive	Finance
Work Stream Leader	Compliance
Programme Manager	Sanctions & Money Laundering
Work Stream Leader	Sanctions & Money Laundering
Business Owner	Cards
Business Owner	Wholesale & Investment Banking
External official	Market Analyst

3.4 The research instrument

The research instrument used in this study was a semi-structured interview schedule in Appendix B. A semi-structured interview was optimal for this study as it enabled the researcher to explore interesting insights as and when they arose. The drawback of this research instrument was that the respondents may have been concerned about issues of confidentiality, especially as they were current or former employees of the organisation under discussion.

3.5 Procedure for data collection

The data was collected through in-depth interviews which were arranged with current or former executives of Absa and Barclays. In-depth interviews allowed the interviewer to ask both questions of fact and opinion (Yin, 2009). The executives interviewed were those who were privy to Barclays' acquisition of Absa and were in a better position to provide concrete insights on the CSFs of this transaction. All respondents, except one external market analyst, worked on the integration team as business owners, accountable executives, work stream leaders or programme managers. Except for two written responses, all the semi-structured interviews were conducted at the respondents' premises. The structure of the interview enabled the researcher to direct the conversation in line with the topic at hand. Respondents were allowed to express their views. Furthermore, the researcher was able to vary the sequence in which the questions were asked and, additionally, probe further on significant responses. This is cited in literature as one of the advantages of semi-structured interviews over completely structured interviews (Willig, 2008). All eighteen interviews were recorded on a digital voice recorder with the unequivocal permission of the respondents. The researcher also took notes during the interview.

The interview questions and a cover letter in Appendix A were sent ahead of time to give the respondents adequate time to reflect and, later, share in-depth insights on the questions posed. The researcher ensured that she acquired the five skills needed in conducting case study research as advocated by Yin (2009). These are the ability to ask good questions, being a good listener, being adaptive and flexible, having a firm grasp of the issues being studied, and avoiding bias arising from preconceived notions. To complement interviews, information was also obtained from documents and archival records, both from Absa and external parties.

3.6 Data analysis and interpretation

The data was arranged according to the theoretical CSFs as stipulated in this study. The data was analysed and interpreted using content analysis. In content analysis, detailed data are examined to identify patterns, themes and biases (Leedy and Ormrod, 2010). After every interview, the recorder was replayed and the interviewee's responses for each question were typed out. This information was then coded and tabulated in a spreadsheet in order to highlight common trends and themes emerging from the interviews. The coding enabled the researcher to confirm existing theory on the CSFs for M&As with particular reference to Barclays' acquisition of Absa. There were no significant differences and inconsistencies in the given responses.

During the interview process, a new proposition emerged that had not been identified in the literature review. It was identified during the third interview, leading the researcher to include the question in subsequent interviews and to re-contact the first two interviewees, enabling them to also give their views on the matter.

3.7 Limitations of the study

The potential limitations of the research are outlined below;

The research was reliant on a sample of individuals. Some potential respondents had left the employ of Absa, some were not contactable and others were not willing to be interviewed which may have impacted on the insights gained from this study.

The research was focussed on one foreign bank's acquisition of a local bank. This may not be representative of all M&As in South Africa, particularly domestic M&As.

Although the researcher interviewed key individuals who were privy to the transaction between Absa and Barclays, they are a small sample when compared with the whole organisation. Considering the size of Absa, the views obtained represent a small section of the whole bank and are not necessarily fully representative.

Owing to the wide and unique nature of each M&A, the research does not constitute an exhaustive list of all M&A processes and success factors.

3.8 Validity and Reliability

Validity is the extent to which a particular conclusion represents a good approximation to the true conclusion; whether the methods of research and subsequent observations provide an adequate reflection of the truth (Roe and Just, 2009). Validity is concerned with the integrity of the conclusions that are generated from a piece of research (Bryman and Bell, 2007). This study enhanced validity by using more than one method of data collection to ensure that high integrity was attained and that the study was able to adequately measure what it was intended to measure. One external market analyst was included in the sample and the interviewees' responses were compared to other documents and archival records.

Reliability means that if one measures something today, one should get the same results at some other time, assuming that what is being measured has not changed (Babbie, 2007).

3.8.1 External validity

External validity is concerned with the question of whether the results of a study can be generalised to groups beyond the specific research context (Bryman and Bell, 2007) or the extent to which findings of a study can be generalised to other contexts (Babbie and Mouton, 2004). The research was based on guidelines which were easily adapted to different contexts (Leedy and Ormrod, 2010). Since the study was based on a single organisation, limited generalisations have been made because the results of a holistic case study may not be compelling (Yin, 2009). The interview instrument was designed to enable it to be reliable enough but external validity might not have been as formidable. The study strived to achieve triangulation by including an independent and external market analyst in the sample. The study also made use of published data such as audited annual financial statements and press reports.

3.8.2 Internal validity

Internal validity is the extent to which the data collection instrument is designed to enable the research to draw accurate conclusions (Leedy and Ormrod, 2010) or the extent to which the findings of the study are true, whether they accurately reflect the aim of the research and describe the social reality of those participating in it (Daymon and Holloway, 2002). Through internal validity of a study, appropriate conclusions can be drawn from the data at hand (Kalof, Dan and Dietz, 2008). Therefore, internal validity ensures that the data collection process is uniform throughout. Internal validity also ensures that data collection is conducted in such a manner that the subject matter under study is identified and described accurately (Franklin and Ballan, 2001).

In order to achieve internal validity, the researcher made sure that the research methodology, the instrument used and the results obtained were analysed based on face validity and plausibility. In order to maximise internal validity, the researcher tried to achieve triangulation by obtaining multiple sources of data (Leedy and Ormrod, 2010). The researcher did not come across rival explanations otherwise they would have been addressed during the study (Yin, 2009). Finally, the interview outcomes were analysed in line with similar research in the field.

3.8.3 Reliability

Reliability is defined as the extent to which a given research question yields the same results if the same research is conducted in the future (Leedy and Ormrod,

2010) or the extent to which results are consistent and yield the same results on repeated trials (Neuendorf, 2002). It also refers to the extent to which results are consistent over time and accurately represent the total population under study (Golafshani, 2003) and the degree to which other researchers performing a similar study in the field would generate similar interpretations and results (Franklin and Ballan, 2001). In a nutshell, reliability is the extent to which the data collection procedure and analysis yield the same answer for multiple participants in the research process. Reliability in this research was achieved by the use of standardised and uniform interview questions. All the interviews for this study were personally conducted by the researcher.

3.9 The role of the researcher

A researcher's personal background can introduce subjectivity into a study and influence the interpretation of the findings of the research (Welman et al., 2005; Creswell, 2009). The researcher is a full-time employee of Absa and had previously worked at Barclays. This may raise objectivity concerns. However, the researcher divorced herself from the situation as much as possible. Furthermore, findings have been collaborated with other publicly available information from annual reports and share performance databases. On the positive side, the researcher believes she was able to gain more insight into this transaction than an external party would have been able to, as respondents were more open to express their views during the interviews.

CHAPTER 4: CASE BACKGROUND INFORMATION

4.1 Introduction

This section gives a brief history and description of both Absa and Barclays. Unless otherwise stated, the information in this section was obtained from the circular issued to Absa shareholders by both Absa and Barclays on 20th May 2005. The summary statistics of the two organisations for the period December 2004 to May 2005 are presented in Table 2.

Table 2: Summary statistics of Absa and Barclays

Source: circular to Absa shareholders – 20th May 2005

	Absa	**Barclays**
Total assets	R348.7 billion	R5,965 billion
Headline earnings	R5,484 million	R52.6 billion
Market capitalisation	R49.4 billion	R433.27 billion
Number of employees	32,515	78 000
Number of customers	7 million	18 million
Number of staffed outlets	675	2900
Moodys' Credit Rating	Aa2	Aa1
Standard & Poor Credit Rating	AA-	AA

4.2 Barclays Bank Plc

Barclays has been in existence for more than three centuries. It was established in 1690 by John Freame and Thomas Gould who traded as goldsmith bankers in Lombard Street, London. Barclays took its name from James Barclay, John Freame's son-in-law, who became a partner in the business in 1736. The bank grew organically and through M&As over the years (Barclays Plc, 2011). By 2005, it had become the world's 10th largest banking organisation by market capitalisation. Whilst based in the UK, Barclays had an extensive international reach with operations in more than 60 countries. Barclays' business units were UK Banking, Barclaycard, International Retail & Commercial, Barclays Capital, and Barclays Global Investors (BGI) and Private Clients. Barclays had a world-class, innovative product range particularly in consumer finance, debt capital markets and business banking. Barclaycard was the first credit card to be launched in the UK. Barclays' skills and capabilities included leading-edge customer relationship management with advanced customer-data gathering, analytics and action prompting, customer-centric product packaging, marketing and branding and risk management including risk-based pricing, automated credit approvals and information-based customer management.

Barclays Africa was a leading international bank in the sub-Saharan region, where it had operated for nearly 100 years in Botswana, Ghana, Kenya, Mauritius, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe. The African operations generated approximately R1.3 billion of pre-tax profits for the year ending 31 December 2004 and had total assets of approximately R44.4 billion, with 1,200,000 retail and business customer accounts served by 6,200 employees through 230 branches. Barclays had a strong domestic franchise and offered a broad range of retail and corporate products and treasury activities. Barclays' South Africa branch focused on treasury (done by Barclays Capital), corporate banking and business banking, as well as wealth management. Barclays was not engaged in retail banking in South Africa apart from a small presence in credit card issuing. At the end on 2004, Barclays Plc ordinary shares' principal market was the London Stock Exchange (LSE) with listings on the Tokyo Stock Exchange and the New York Stock Exchange (NYSE) (Barclays, 2004).

4.3 Absa Group Limited

Absa was incorporated in South Africa on 2 October 1986. Absa was formed in 1991 as Amalgamated Banks of South Africa Limited (Absa) through the merger of United Building Society (UBS) Holdings, the Allied and Volkskas Groups, and certain interests of the Sage Group. In 1992 Absa acquired the entire shareholding of the Bankorp Group (which included TrustBank, Senbank and Bankfin). The forerunners of Absa had been in existence for many years as per founding year of each group's first company indicated in brackets; Allied (1888), UBS (1889), Volkskas (1934), Bankfin (1918), TrustBank (1954) and Bankorp (1955) (Absa, 2011). In 1997 the name of the holding company, Amalgamated Banks of South Africa Limited (Absa), was changed to Absa Group Limited. In 1998 the United, Volkskas, Allied and TrustBank brands were consolidated into a single brand, Absa, and the group adopted a new corporate identity. The Absa Group offered a full range of products and services in personal, commercial and corporate banking and also in insurance and financial services. Absa was a leading player in home loans, instalment finance and debit and credit card markets.

In 2005, Absa Group was one of South Africa's largest financial services organisations, serving personal, commercial and corporate customers. The group had operations in the UK, Germany, Singapore, Hong Kong, Tanzania, Mozambique, Namibia, Zimbabwe and Angola as laid out in Appendix E. The group's primary listing was on the Johannesburg Securities Exchange (JSE).

4.4 Deal details

This deal had both aspects of a horizontal acquisition and a vertical acquisition as defined in 2.4.1 and 2.4.2. It was horizontal because it was done between parties in the same industry. It was vertical because it was a combination of firms operating at different levels of banking. There were two phases to this transaction with phase I being split further into two stages;

- Phase I - Building the South African franchise with Barclays' acquisition of Absa and then enhancing Absa's global reach through Absa's acquisition of Barclays' South African operations.
- Phase II - Accelerating Absa's African expansion strategy through Absa's acquisition of Barclays' African businesses located in Botswana, Ghana, Kenya, Mauritius, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe.

The minister of Finance granted Barclays the regulatory approval of acquiring more than 49 percent but less than 74% in Absa (South Africa, 2005). Barclays intended to acquire up to 60% of Absa's ordinary shares (Absa and Barclays, 2005). The following is an extract of the proposal put forward to Absa shareholders by Barclays:

> "The Recommended Acquisition is to be achieved through a dual mechanism, being the Scheme in terms of which Absa Ordinary Shareholders will sell 32% of their Absa Ordinary Shares and the Recommended Offer in terms of which Absa Shareholders are invited to tender all or some of their Absa Shares for purchase. The Scheme, if successful, will result in Barclays acquiring 32% of Absa's ordinary share capital (held by Scheme Participants) and the Recommended Offer, if successful, will result in Barclays acquiring up to an additional 28% of Absa's ordinary share capital. The Scheme and the Recommended Offer are inter-conditional. Since Barclays is not seeking to acquire 100% of Absa's ordinary share capital and in the interest of treating all Absa Ordinary Shareholders equally, the structure of the Recommended Acquisition is designed to ensure a minimum level of participation by all Absa Ordinary Shareholders, while at the same time enabling those Absa Shareholders who wish to participate to a greater extent to do so. The structure was developed as a direct result of feedback from Absa Shareholders."
>
> (Absa and Barclays, 2005 P:1)

> "Absa's two largest Ordinary Shareholders, Sanlam and Remgro, accounting for in aggregate approximately 28% of the Absa Ordinary Shares, have also given a written undertaking to vote all of their Absa Ordinary Shares in favour of the Scheme and to tender all of their Absa Ordinary Shares under the Recommended Offer."
>
> (Absa and Barclays, 2005 P:13-14)

Barclays' acquisition of Absa (phase I) was completed on 27th July 2005 with Barclays acquiring only 53.96% of Absa's ordinary shares (Absa, 2005a). This was increased to 56.61% as at 31 December 2005 (Absa, 2005b). The British pound values of the transaction are tabulated in Table 3. Absa acquired Barclays' South African operations with effect from 1 January 2006 at a cost of R578 million. This translated to book value net assets of £54m which included cash balances of £29m, and no profit or loss was recognised on this sale (Barclays, 2006). Phase II was not completed because the two parties could not agree on the pricing for the initial African deal in Tanzania.

Table 3: Absa acquisition values

Source: Barclays Bank Plc Annual Report 2005

	Pre-acquisition carrying value (£'m)	Fair Value adjustments (£'m)	Fair Values (£'m)
Total assets	33,905	1,076	34,981
Total liabilities	31,815	416	(32,231)
Net assets	2,090	660	2,750
Barclays share of net assets			1,557
Goodwill			1,200
Total			2,757
Acquisition cost - cash paid			2,750
- costs			7
Total consideration			2,757

The researcher believes that Barclays' acquisition of Absa was partly due to good timing and partly due to luck. Absa's two main shareholders, South African National Life Assurance Company (Sanlam) and Remgro both decided to dispose of their Absa shareholdings for strategic reasons. Sanlam wanted to optimise its balance sheet and manage its investment risks by diversifying its operations (Sanlam, 2005a). It held 142.2 million ordinary shares representing a 21.5% stake in Absa. Sanlam had surplus capital of R7 billion and wanted to reduce this surplus by buying back R4 billion worth of its own shares (Sanlam, 2005c). The other R3 billion was to be channelled into another growth opportunity. As part of this new strategy, Sanlam acquired African Life with African operations (Sanlam, 2005b) in August 2005 after selling off its stake in Absa. Remgro wanted to reduce its exposure to the South African financial services sector (Remgro, 2005b). It owned 9.3% of Absa ordinary shares and also had a stake of 16.7% in FirstRand. It decided to retain its FirstRand stake and to cash in on its Absa holding with proceeds being paid out to shareholders as a special dividend (Remgro, 2005a).

4.5 Conclusion

Barclays was a global bank which grow both organically and through M&As over more than three centuries. Absa was in existence for just below two decades but some of its forerunners had been in business for over a century. Barclays wanted a big presence in South Africa and Absa became a target through the actions of Sanlam and Remgro, both of whom wanted to diversify and together held over 28% of Absa shares.

CHAPTER 5: PRESENTATION OF RESULTS

5.1 Introduction

The findings of the research are presented in this section. The analysis of the data gathered using the questionnaire in Appendix B will be discussed. The results are presented according to the structure of the propositions laid out in Section 2. The results are based on the CSFs for Barclays' acquisition of Absa.

5.2 Demographic profile of respondents

A summary of the characteristics of the respondents is given in Table 4. 75% (fifteen) of the respondents were still in Absa's employ, 20% (four) of them left Absa and one respondent, representing 5%, was a market analyst who follows Absa. Furthermore, 15% (three) of the respondents came from Barclays, with 80% (sixteen) being Absa people and one market analyst (5%). All respondents, except the external market analyst, were part of the integration team either as business owners, accountable executives, work stream leaders or programme managers. The respondents are referred to by codes in order to protect their identities. The sample selected was not a big departure from what was originally planned. The researcher intended to cover every business area of Absa in order to get perspectives from the whole organisation. Individuals with insights into the acquisition details could not be obtained for Absa Business Bank and Marketing & Communications. However, some of the respondents' insights covered these two business units. The researcher intended to include one potential respondent who was one of the architects of this deal but who had since left Absa. This potential respondent could not avail time for the researcher. The researcher is of the view that the validity of the study was not comprised by these two factors. The researcher obtained convergent views after interviewing the fifth respondent.

Table 4: Demographic profile of respondents

Characteristic	Percentage	Count
Current Employees	75%	15
Former Employees	20%	4
External Market Analyst	5%	1
Total	**100%**	**20**

5.3 Results pertaining to Proposition 1: Strategic alignment

Respondents were asked to indicate the role played by the strategic alignment of Absa and Barclays. They unanimosly agreed that both parties' strategies were aligned and compatible and that this is very important in an acquisition.

The main strategic reasons given were;

- Barclays wanted a big presence in South Africa to complement its expansion drive.
- Absa needed a global partner in order to be more competitive.
- Barclays wanted to diversify its earnings away from the UK.
- Absa was a strong retail bank with few investment banking operations whilst Barclays had a strong investment bank but no retail operations in South Africa.
- Absa wanted to have a shareholder of reference.

5.4 Results pertaining to Proposition 2: Relatedness between acquirer and target

Interviewees were asked to explain the impact of similarity (relatedness) between Absa and Barclays on the financial performance of post-acquisition Absa. Eighteen of the twenty respondents strongly felt that similarity is very important in M&As. The respondents stated that similarity was very important in the M&A between Absa and Barclays because;

- It made it easier for the parties to understand each other's businesses.
- It helped to determine a fair price for Absa pre-acquisition.

- After the acquisition, both companies were able to share resources and capabilities.

5.5 Results pertaining to Proposition 3: Focus on core business – complementary resources

Respondents were asked about the contribution made by Absa and Barclays' complementary resources to the success rate of two banks' transaction. All except one respondent indicated that complementary resources were critical in the M&A between Absa and Barclays. The main resources that complemented each other were;

- Absa's big balance sheet was used to support investment banking deals.
- Barclays' investment banking expertise leveraged off Absa's local knowledge and presence.
- Barclays' African franchise was enhanced by South African operations.
- Barclays' best global practice in customer and systems management was used to improve Absa's businesses.

5.6 Results pertaining to Proposition 4: Focus on core business – geographic expansion

Interviewees were asked to shed light on the effect of geographical expansion on the success rate of the transaction. All respondents agreed that geographic expansion is key to acquisition success. Although geographical expansion was considered to be a CSF by respondents, Absa did not expand geographically after it was acquired by Barclays because the parties did not embark on phase II of the deal (Absa's purchase of Barclays African businesses). Furthermore, in order to attain optimal operations between the two banks, Absa closed some of its overseas operations. Most respondents felt that Absa would have expanded more into Africa and benefitted financially from such expansion if it was not part of the Barclays Group.

5.7 Results pertaining to Proposition 5: Focus on core business – new products

All except one respondent, who showed ignorance, felt there was a significant contribution made by the introduction of new products to the Absa product set. This indicates that acquisition success is highly influenced by additional products. Some of the new products introduced into Absa by Barclays were investment banking related products (e.g. derivatives, equities trading, fixed income, structured products etc.) and wealth management.

5.8 Results pertaining to Proposition 6: Focus on Core business - new customers

The interviewees were asked to comment on the role played by new customers in the financial performance of the acquisition of Absa by Barclays. All former integration team members applauded the introduction of new customers to the Absa customer base. The market analyst was not privy to this information. The post-acquisition Absa attracted top-tier customers in multinational companies, large corporates and very high net-worth individuals.

5.9 Results pertaining to Proposition 7: Acquisition experience of the acquirer

The researcher sought the views of interviewees on the influence of Barclays' prior experience in acquisitions on the success rate of its acquisition of Absa. Eighteen respondents believed that Barclays' prior experience in M&As made a significant contribution to the success rate of this M&A transaction. One respondent disagreed and another one was uncertain. It can, therefore, be deduced that the acquirer's experience is paramount in acquisitions. Respondents stated that an experienced acquirer had knowledge on best practices to be adopted and pitfalls to avoid.

5.10 Results pertaining to Proposition 8: Due diligence

The researcher explored the impact of a thorough due diligence on Absa's post-acquisition performance. Seventeen respondents strongly felt that due diligence is critical in M&As. The other three respondents were ignorant of this factor. It can be deduced overall that due diligence is imperative in an acquisition. Respondents felt that due diligence was very important because it;

- Facilitates a better understanding of the target on both financial and non-financial metrics.
- Identifies the risks and the opportunities in the target.
- Is a price determinant.

5.11 Results pertaining to Proposition 9: Larger acquirer

The researcher sought the views of the respondents on the influence of Barclays' large size in relation to Absa on the success rate of the M&A. Thirteen respondents believed that Barclays' size had a huge impact on the success of the acquisition. The other seven did not think that size was a factor. It can be derived that size is a CSF because the majority of respondents were in agreement. Most interviewees alluded to Barclays' resource capability as the key benefit of its size in integrating Absa.

5.12 Results pertaining to Proposition 10: Stock Purchase

Respondents were questioned on the benefit or the detriment of Barclays' use of cash to purchase Absa shares on Absa's post-acquisition financial performance. Over half the respondents disagreed that the type of payment had any influence, with only three respondents in agreement. Five of the respondents had no idea of the impact of the payment method. Overall, respondents did not rank the payment method as a CSF in this acquisition.

5.13 Results pertaining to Proposition 11: Low Premium

The study also focussed on the impact of the premium paid on the financial outcome of the Absa and Barclays transaction. Fifteen respondents strongly felt that the premium paid by Barclays had an impact on the financial outcome of the deal. The other five were not very convinced that premium played any role, although none of them expressed disagreement or ignorance. Paying a low premium is a CSF owing to the higher number of respondents ranking premium as a factor in M&As.

A number of respondents stated that the premium paid by Barclays was recouped by the successful extraction of synergies as well as the unrealised gain in the upward movement of Absa' s share price.

5.14 Results pertaining to Proposition 12: Effective Communication

The researcher sought to understand how communication throughout the acquisition influenced the success rate of the transaction. All respondents, except one who was uncertain, felt that communication played a very big role in the outcome of the acquisition of Absa by Barclays. This is indicative that effective communication is a CSF in acquisitions. It was identified that communication was important because it;

- Allayed staff fears and limited the loss of key people due to uncertainty.
- Dealt with the concerns of stakeholders, particularly customers.

5.15 Results pertaining to Proposition 13: Careful and quick selection of new leadership

Interviewees were asked on how the success rate of the transaction was impacted by the nature of Barclays' selection of Absa's post-acquisition leadership. It was unanimously agreed that the way Barclays handled the leadership selection of post-acquisition Absa was critical to the outcome of the transaction. This shows that careful and quick selection of new leadership is a CSF in an acquisition. Barclays' selection of top leadership was important because it clarified and gave certainty of roles, in turn retaining key people.

5.16 Results pertaining to Proposition 14: Strong Integration Structure

Respondents were asked whether the integration structure had any influence on the financial performance of the transaction. All except one respondent indicated that the integration structure of Absa and Barclays had a significant impact of the outcome of the deal. Having a strong integration structure was helpful in the synergy extraction process in that;

- The integration programme was drawn up prior to deal completion.
- The synergistic gains were agreed and signed for by the responsible parties before the integration implementation began.
- The integration director had prior experience in integrations, was well respected and had good interpersonal skills.
- The integration team members were top performers who had the capability of implementing the integration programme.
- The integration team had dedicated members engaged on a full-time basis.
- The integration team was able to obtain the best breed of both Absa and Barclays as each business unit had equal representation from both companies.
- Integration team members were incentivised to deliver on the integration objectives.

5.17 Results pertaining to Proposition 15: Involvement of top management

The performance effect of top management involvement in the integration process was explored with the respondents. They unanimously agreed that top management involvement was critical in achieving the acquisition objectives of Absa and Barclays. It was important to have top management involvement in the integration process because;

- Individuals' objectives were aligned with the integration objectives from top to bottom.
- Top visibility drove the correct behaviours across the whole organisation.
- Each business unit leader was effectively building the future business he or she would be responsible for.

5.18 Results pertaining to Proposition 16: Appropriate cultural integration

The researcher sought the views of the respondents on whether the cultural integration between Absa and Barclays was appropriately done, how the parties dealt with the cultural differences between the two companies and how this impacted the outcome of the deal. All respondents except the market analyst who was not exposed to internal Absa operations felt that the issue of culture was well handled. Thirteen respondents thought that culture was not a major factor whilst seven respondents felt that cultural differences played a role. Overall it was felt that the cultures of Absa and Barclays were appropriately dealt with indicating that appropriate cultural integration is a CSF in an acquisition.

The subtle differences in interpreting the English language between Absa and Barclays were dealt with by increased communications.

Interviewees stated that cultural matters were handled with caution. There was a deliberate decision not to change Absa's culture because;

- The differences between Absa and Barclays were not major since both companies used English as a medium of communication.
- Absa and Barclays agreed on a set of common values that would govern their relationship.
- Barclays was geographically remote from Absa with very few people being deployed from Barclays into Absa.
- There were no staff or business unit or branch mergers between Absa and Barclays.
- Absa's culture was maintained because Absa had a big minority shareholding of over 40%
- Barclays made an undertaking with regulators to maintain the South African nature of Absa.

5.19 Results pertaining to Proposition 17: Integration speed

One of the areas of focus for this study was the impact of integration speed on the financial performance of the post-acquisition Absa. Respondents unanimously indicated that speed of integration had an impact on the outcome of the deal. The early realisation of synergies was helpful in that it;

- Motivated people and kept the momentum.
- Enabled the business to refocus on the customer.

5.20 Results pertaining to Proposition 18: External factors

The researcher explored the possibility of the influence of external factors on the outcome of the acquisition transaction between Absa and Barclays. Fifteen of the twenty respondents stated that there were external factors which influenced the outcome of the transaction. This indicates that external factors were a CSF in this transaction. One external factor that was identified by interviewees, and is said to still have an impact on Absa, were the regulatory conditions imposed on Barclays.

5.21 Results pertaining to other factors: Incentives

Interviewees were asked to explain the impact of incentivising people on the success rate of the deal. Nineteen respondents stated that incentives played a key role in the success rate of the deal. Only one respondent was ignorant of this factor. This is indicative that the use of incentives was a CSF in the deal between Absa and Barclays. Incentives were used to;

- Align people's behaviours with those of the organisation.
- Encourage people to put in extra effort.

5.22 Summary of the results

The twenty respondents agreed with seventeen of the eighteen propositions identified in literature as CSFs in the acquisition of Absa by Barclays. The factors confirmed were strategic alignment, similarity (relatedness) of a target to its acquirer, existence of complementary resources, expansion into new geographic locations, introduction of new products, acquisition of new customers, acquisition experience of the acquirer, conducting a thorough due diligence, larger size of the acquirer, low premium, effective communication, careful and quick selection of the target's leadership, a strong integration structure, involvement of top leadership, appropriate integration of diverse corporate cultures, speed of integration, and the absence of external factors. Stock purchase was not supported as a CSF in the Absa and Barclays deal.

CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 Introduction

This chapter discusses and explains the results of the research with reference to the literature review. The chapter will also attempt to validate the research propositions indicated in section 2.

6.2 Demographic profile of respondents

The researcher planned to interview at least twenty people who were closely involved in the transaction between Absa and Barclays. Responses were obtained from the planned number of twenty. Eighteen people were interviewed whilst two respondents sent in written responses owing to their being out of the country for an extended period of time. Common themes were evident after interviewing the fifth respondent. 75% (fifteen) of the respondents were still in Absa's employ, 20% (four) of them left Absa and one respondent, representing 5%, was a market analyst who follows Absa. Furthermore, 15% (three) of the respondents came from Barclays, 80% (sixteen) were Absa people with one market analyst (5%). All respondents, except the external market analyst, were part of the integration team either as business owners, accountable executives, work stream leaders or programme managers. The sample selected was not a big departure from what was planned. The researcher intended to cover every business area of Absa to get the perspectives of the whole organisation. Individuals with insights of the acquisition details could not be obtained for Absa Business Bank and Marketing & Communications. The researcher intended to include one potential respondent who was one of the architects of this deal but who had since left Absa. This potential respondent could not avail time for the researcher. However, some of the respondents' insights covered these two business units. The researcher is of the view that the validity of the study was not comprised by these two factors.

6.3 Discussion pertaining to Proposition 1: Strategic alignment

Several respondents explained that Barclays was then one of the ten biggest banks in the world and wanted to ascend to the top five by diversifying its earnings away from the UK. Barclays re-established operations in South Africa in 1995 focussing on investment banking but struggled to obtain critical mass because of a small local balance sheet. Barclays also needed a big South African presence to enhance its African operations. Absa, on the other hand, had shareholders who held Absa stakes as portfolio holdings. Absa wanted a shareholder of reference, access to global markets, and also to consolidate and accerelate its African expansion strategy. Absa had a leading retail footprint but its investment banking operations lagged behind its peers. A combination of the two businesses was a very good strategy because each party had what the other party was lacking or seeking. The two parties together brought out the best of both banks to create what R3 and R4 referred to as the "lion of Africa" and "pre-eminent bank in Africa" respectively. R11 indicated that this deal could be a 1+1=4 whilst R12 coined it as a 2+2=5 deal.

Literature has identified strategic fit as a critical factor in determining the success or failure of M&A deals (Aiello and Watkins, 2000; Bower, 2001; Altunbas and Marqués, 2008). Viscio *et al.* (1999) state that an M&A deal should fit into a company's strategy. The findings of this study as aforementioned collaborate this literature. It can, therefore, be held that alignment of the strategic objectives of parties to an M&A transaction is a CSF.

6.4 Discussion pertaining to Proposition 2: Relatedness (similarity) between acquirer and target

The study revealed that it is imperative for parties to an acquisition to be in the same line of business and this is especially true for banks. Absa particularly benefitted from its association with Barclays in that it did not have to build world-class systems from scratch. R20 gave an example of the beneficial relationship of Absa and Barclays pertaining to Absa Capital. Absa Capital was established on Barclays Capital's business model and did not have to pay for the development of any IT systems; it simply paid for the licenses. This was not only cheaper but it also decreased the "time to market" for investment banking products, in turn creating a competitive edge for Absa Capital. R5, R6 and R12 noted that Absa did not have to "reinvent the wheel" since Barclays brought in more robust processes and systems of governance, risk and internal controls. R4 stated that Absa has hugely benefitted from Barclays' intellectual property (IP), improved pricing and product development models, and better customer insights. R5 added that Absa is benefiting from big discounts in procurement especially with regards to computer and paper purchases. R15 pointed out that Barclays introduced branch efficiencies in Absa's retail branches based on its experience with retail banking elsewhere. R14 stated that similarity helps the respective management teams to better understand the other party's business, a factor which is also important in price determination.

Barclays also benefitted from Absa's advanced digital channels (IT shop), compliance systems and forensics. R8 explained that Absa had one of the top IT shops in the industry resulting from the four bank merger of 1991/1992. R2 indicated that the two parties have now established a Global eBusiness Council to facilitate the sharing of IT best practices and to promote, align and leverage off digital capabilities across Absa and Barclays. R18 stated that Absa had advanced money laundering monitoring models pre-acquisition. Advanced South African regulatory requirements led Absa to seek and develop money laundering systems well before Barclays. Absa systems were rolled out into the rest of Barclays shortly after the acquisition. R10 claimed that Barclays has drawn on Absa's expertise in deploying mobile bank branches, in sub-Saharan Africa. In addition, Absa's Workplace Banking, in which a combination of services such as financial advisory, automated teller machines (ATMs), sales and service kiosks, internet kiosks and mobile branches are taken to customers' work premises, is being exported for use in Barclays operations in many countries. R12 summed it up by stating that being in similar businesses allowed the two parties to 'leverage off each other's capabilities." The aforementioned benefits would not have benefitted partners from completely different industries.

The above discussion is consistent with King *et al.* (2004) who argued that similarity enables the acquiring firm's pre-existing resources to be productively leveraged in the new entity. Hitt *et al.* (2001) found that familiarity with the industry can significantly reduce the acquiring firm's need to learn the business of the acquired firm. The finding of this study confirms that similarity or relatedness is a CSF in an acquisition.

6.5 Discussion pertaining to Proposition 3: Focus on core business – complementary resources

There was a recurring theme pertaining to the profit contribution being made by Absa Capital's investment banking activities. R20 noted that "Absa had a big retail book with a lazy balance sheet". Barclays, on the other hand, had investment banking expertise but lacked the necessary local capital to back it. After the acquisition, investment banking operations were supported by Absa's big balance sheet. Barclays had a big presence in the rest of Africa but emerging market trends then indicated that South Africa was significant to banking operations in other African countries. Hence, Barclays needed a presence in South Africa to enhance its African businesses. On the flipside, Absa's market was reaching saturation locally; hence it needed to expand into the rest of Africa. Combining the infrastructure of South Africa and the rest of Africa made good business sense. R11 indicated that the then Absa Corporate and Merchant Bank (ACMB) lagged behind its peers and Absa wanted to build this business with the help of a global player. Barclays could easily uplift ACMB because it had the skills required in corporate and merchant banking and it had access to global capital markets and international distribution networks. R19 mentioned that Absa's card business was also enhanced by the credit management models and customer relationship management systems and processes used by Barclays' renowned Barclaycard. R10 pointed out that Absa also drew on Barclays' expertise to open small business centres in townships through an offering called Business Advantage. By July 2010 it had 11 000 monthly subscribers and formed part of the foundation for the Absa Enterprise Growth Programme.

These findings support the argument put forward by Stern and Henderson (2004) that M&As which are done in the same industry facilitate resource-sharing within and across a firm's product lines. Kim and Finkelstein (2009) argue that cheap capital from customer deposits in retail banking can be used to fund highly profitable commercial banking operations. Overall, such a combination lowers operational costs which in turn increase revenues and margins. Shiers (2002) concur that market complementarity in banking enables managers to effectively divert funds from one market to another. The observations of Ramaswamy (1997) that target and bidder client mix differences yield negative performance due to failure to enhance complementarities between wholesale and retail banking was not evident in the Absa case. The complementarities between Absa and Barclays yielded positive performance because resources were redeployed into similar operations; for example Barclaycard practices were introduced into Absa Card and Barclays Capital model and systems were imported into Absa Capital. Proposition 3 which states that having complementary resources is a CSF in an acquisition transaction is hereby supported.

6.6 Discussion pertaining to Proposition 4: Focus on core business – geographic expansion

Interviewees indicated that it was important for a bank to have various geographical income streams. R20 disclosed that Barclays' decision to acquire Absa was wise because South Africa was not highly affected by the global financial crisis. Barclays was negatively hit by the current financial crisis which dates back to 2007 because of its global exposure. R1, R15 and R20 pointed out that at the peak of the financial crisis, Absa's market capitalisation was better than that of

Barclays. Barclays' Absa dividend stream depicted in Appendix D was not interrupted during the credit crunch. This supports literature by Altunbas and Marqués (2008), who state that banks' expansion into new products and geographical areas allows them to diversify both their risks and their revenue sources, thereby providing them with a buffer in the event of geographic or product-related shocks.

Several respondents mentioned that Absa's main attraction to Barclays was phase II in which Absa was to acquire Barclays operations in nine other African countries (Botswana, Ghana, Kenya, Mauritius, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe). Absa had already started expanding into Africa as indicated on Appendix E and needed to accelerate this strategy. Appendix E also shows how Absa contracted geographically after it was acquired by Barclays. Phase II has still not been embarked upon six years on. Most respondents expressed disappointment with this situation as they firmly believed that Absa's African expansion would be further ahead had Barclays not acquired Absa. Absa has not only failed to purchase the said Barclays operations but it cannot set up its own businesses or partnerships in African countries where Barclays is already represented. R1 stressed that African governments and regulators would not allow Absa and Barclays to operate in the same market because the two entities would significantly raise country counterparty risk. The market analyst claimed that Absa was trading at a discount in comparison to other banks probably because of its lack of presence in the rest of Africa.

Respondents expressed some hope that Absa may finally benefit from African growth prospects irrespective of who owns these businesses as Barclays has decided to merge all its African operations under its new "One Bank in Africa" strategy. Barclays Africa and Absa Africa operations were combined under the leadership of the Absa Group CEO with effect from 1 July 2011. Barclays Africa's regional offices were relocated from Dubai to Johannesburg at the end of 2011. Barclays CEO for Global Retail Banking assumed global product responsibility for Absa's units of retail, unsecured lending and business banking.

This discussion points to the literature position of Hitt *et al*. (1998) who claimed that acquiring a core business in the same industry, but operating in a different geographical region, can result in the creation of positive synergy. This discussion coupled with what is stated in literature indicates that geographical expansion is a CSF in acquisitions.

6.7 Discussion pertaining to Proposition 5: Focus on core business – new products

Almost all respondents pointed out that investment banking done by Absa Capital has been a huge success. New investment banking products included derivatives, fixed income, equities, structured products and foreign exchange transactions. Absa Capital has effectively sold itself using the brand of Barclays Capital. According to Altunbas and Marqués (2008), earnings diversification can also be achieved through targeting income other than traditional net interest revenues, including the extensive use of a brand name. Barclays also planted its wealth model into Absa Wealth which provides wealth management solutions for very high net-worth individuals. R7 alluded to the introduction of structured products in retail bank. R4 stated that Absa customers could also access the product range of Barclays internationally.

Absa has over the past few years reduced its reliance on retail banking revenue. Retail's headline earnings constituted almost half of its total earnings in 2005. The 2010 annual report indicates that retail bank and Absa Capital's headline earnings contribution was 36% and 17% respectively. The target is to get to 30% and 25% respectively. If Absa had maintained its large reliance on retail, its performance during the current financial crisis would have worsened since a lot of retail customers' buying power has been eroded. This validates literature assertions by Altunbas and Marqués (2008) that banks' expansion into new products allows them to diversify both their risks and sources of revenue, enabling them to have a buffer in the event of product-related shocks.

R19 stressed that Barclays made a lot of improvements to existing products and that too deserved recognition. Product management processes such as differentiation between front end and back end processes were implemented. R19 also stated that Absa's credit models are now more sophisticated, quicker and more agile. Barclaycard's best practices were brought into Absa's card operations.

Other studies indicate that mergers of banks with no or few similarities in terms of geographical or product strategies could destroy overall shareholder value (DeLong, 2001; Amihud et al., 2002). The fact that Absa and Barclays were related and that the products and systems of both banks were able to create synergies for both parties also confirms the findings of these studies. The additional products introduced in Absa, particularly in investment banking, and its associated contribution to Absa profits validates proposition 5.

6.8 Discussion pertaining to Proposition 6: Focus on core business – new customers

Barclays was mainly geared at attracting the top end of corporate customers such as multinationals and very large companies. All respondents agreed that Absa attracted multinationals and wealthy customers through the newly established Absa Capital and Absa Wealth. R20 stated that because Absa was previously a local bank, it could only attract mid-to-bottom tier customers. When Absa was acquired by Barclays, it attracted the top-tier customers in multinationals. R20 added that Absa Capital enabled Absa to be "fully-local and fully-global overnight". R2, R5, R7, and R15 concur that Absa Capital is now one of the top investment banks in the country with R15 pointing out the fact that Absa now gets invitations to tender for big corporate deals. R2 added that one customer on Absa Capital books generates high profits in comparison to a retail customer. R19 emphasised that Barclays got Absa to look at its customer base in a scientific manner; Absa now uses models to better understand customers and to identify potentially good customers to target. R10 and R12 indicated that Absa also attracted good skills in the job market because of its association with Barclays. These good skills in turn serve customers better.

Selden and Colvin (2003) state that the most common reason for business combinations was to acquire customers, hence acquirers must analyse and understand the customers they intend to buy. Cullinan *et al.* (2004) assert that very few of a company's customers generate the highest profits, therefore, successful acquirers must analyse the target's market by looking at its size, growth rate, geographical distribution, and its product and customer segmentation. The acquirer can then compare the profitability, potential, and vulnerability of the target's customer segments. What Barclays did to Absa supports the position of Selden and Colvin as well as Cullian et al. Proposition 6 is, therefore, validated. However, M&A literature must be extended to include attraction of key skills (skilled people).

6.9 Discussion pertaining to Proposition 7: Acquisition experience of the acquirer

Respondents generally agreed that Barclays managed to successfully do the Absa deal because of its prior experience in acquisitions. They stated that Barclays learnt from previous deals, both successful and unsuccessful. R1's observed the experience of the Barclays team in their professional handling of the Absa integration in that "they were very good at dotting the i's and crossing the t's". R1, R10, R11, R17, R18 and R20 stated that Barclays had a bad track record on acquisitions. Although Barclays had just successfully integrated Banco Zaragozano, a leading Spanish retail and commercial bank which it acquired in 2003, the integration of its 2000 purchase of UK's Woolwich Building Society (Woolwich) was deemed to have been a failure. This put Barclays under pressure from regulators and market analysts to successfully integrate Absa. The Spanish integration team was tasked to integrate Absa and R9 said that they shared best practice and pitfalls to avoid. R7 noted that Barclays' prior experience, especially in Spain, enabled it to overcome resistance and to deal better with people.

R1, R2, R8 and R18 explained that Absa also had a lot of experience with business combinations because of its previous four bank merger. Absa staff members were familiar with change, making it easier for them to deal with the Barclays acquisition. R3 pointed out that Absa's M&A experience came to the fore when it performed its own acquisition analysis whose outcome was 70% correlated with that of Barclays. Furthermore, Absa's experience was instilled into Absa's integration team members. This is consistent with the literature by Nadolska and Barkema (2007) that claims domestic acquisition experience teach companies how to screen, select, take over, and integrate already established entities into their own organisation.

Haleblian and Finkelstein (1999) and Zollo and Winter (2002) found that entities with prior acquisition experience tended to apply this experience inappropriately. This was true for Barclays in certain instances as observed by R6 that Barclays was used to doing 100% acquisitions and the Absa deal was unusual for them. Barclays sometimes disregarded minority interests and had to be reminded to factor them in.

Acquisition experience is only beneficial if it was obtained from related ventures (Vermeulen and Barkema, 2001). It is evident that Barclays had good learnings from Spain's Banco Zaragozano that could directly be applied to Absa because both targets were banks. Aiello and Watkins (2000) argue that it is not frequency but the codification of M&A related knowledge which leads to M&A success akin to the scrutiny applied to both successful and unsuccessful deals by LBO entities. R3 stated that Barclays people sometimes avoided doing certain things and they usually reminded each other of Woolwich pitfalls. The codification of both Woolwich and Banco Zaragozano experiences greatly assisted Barclays with the Absa deal. The above discussion validates Proposition 7. The researcher is of the view that M&A literature should also consider the impact on M&A success brought about by the target's prior experience. An organisation that has gone through acquisitions such as Absa is likely to be more receptive to change.

6.10 Discussion pertaining to Proposition 8: Due diligence

The importance of due diligence was ranked highly in this study. Most respondents mentioned that due diligence is a must because it ultimately determines the right price for the target and enables the acquirer to make an informed decision.

Barclays engaged both local and international experts in different areas to do a due diligence on Absa. Absa also sought advice from local and international experts. The use of experts is consistent with Angwin's, as well as Perry and Herd's, literature. Angwin (2001) found acquirers of different nationalities tended to rely on external advisors as they bring external knowledge to the process. Perry and Herd (2004) are in agreement as the use of experts forms one of their four "best practices" of managing risk in M&As. Perry and Herd (2004) assert that experts help to understand the business and evaluate cost and revenue synergies.

R1, R5 and R6 stated that due diligence enabled Barclays to understand Absa's culture, processes, systems, financials, contractual and legal obligations, risks, basis of market share, and third party dependencies etc. R6 said due diligence "provided Barclays with the comfort that there were no black holes and surprises". R9, R14 and R20 pointed out that due diligence helped Barclays to know where the synergies and opportunities lay and which areas needed to be focussed on. The significance of due diligence was summarised as "a very big risk mitigation tool" by R12. This supports Angwin (2001) who states that due diligence is done to unearth the value and the risks of the target company which is then used to set the M&A negotiation parameters. The risks include pending litigation, contingent liabilities, inaccurate financials and unethical practices. Robins (2008) concurs that due diligence results are used in pricing, deal structure, the mechanics of the deal and how best to integrate the target.

R3 raised a very good point that both Absa and Barclays did "sources of value" assessments which turned out to be 70% correlated. The benefit of due diligence being done on Absa was elaborated by R20 using Absa Capital as an example. "With Absa Capital, Barclays did a very good job because it identified the then existing capabilities within Absa, they knew what the skill gap was, what they wanted to create, what was not there and what they would focus on". Furthermore, "Absa Capital business model is a step by step roll out which is still in progress. This kind of focus was critical to Absa Capital's success".

Since the responses indicate that due diligence was fundamental in this study, Proposition 8 is supported.

6.11 Discussion pertaining to Proposition 9: Larger acquirer

Most respondents agreed that Absa benefitted from Barclays' size because Barclays had sufficient resources in capital, capability and expertise to put up an integration team. Barclays sent in experts from all over the world to work on the Absa deal and integration. R1 pointed out that a small player would not have been able to put together that level of investment. R4 commented that the size factor was also by way of brand, Barclays was a well-known and respected brand worldwide.

Some respondents believed that the South African Reserve Bank (SARB) and Absa itself would not have entertained a small bank. Since Absa wanted to attain global reach and to build a formidable investment bank, it could only consider an international and inevitably big player.

However, most respondents disagreed with the size factor referring to being "big" because as raised by R8 "big is not necessarily better" hence the 30% low agreement. R19 commented that although it is important for the buyer to have the scale of absorbing the entity it was buying, it is more about the quality of the process and not the size of the buyer. R16 was more comfortable with replacing "big" or "size" with "sophistication" or "global capability".

Literature states that it is easier to create value in the acquisition of smaller targets because they are less complex (Bower, 2001; Beitel et al., 2004; Chatterjee, 2009). Beitel *et al.* (2004) found that if a target is small in relation to its acquirer, the shareholders of the target obtain excess returns. The size of Barclays benefitted Absa from an investment point of view. Since resources moved from Barclays into Absa, Absa shareholders benefitted financially from this development.

The size argument calls for a refinement in literature, and should be further studied to identify what aspect of size impact M&As. It would be more appropriate to redefine size in terms of capability and resource base. Despite the confusion in semantics for the word "big", most respondents agreed that Barclays' capability greatly benefitted Absa. Proposition 9 is thus validated.

6.12 Discussion pertaining to Proposition 10: Stock Purchase

The findings on stock purchase indicated that that the method of payment did not affect Absa's performance. Barclays purchased Absa shares using a combination of available resources and preference share finance (Barclays Plc, 2005). R20 pointed out that Barclays was under financial pressure to pay preference share dividends because these payments are mandatory, similar to debt interest payments. If Absa was purchased using Barclays stock, Barclays would have elected not to pay dividends. Absa's dividend stream most likely cushioned Barclays' preference share obligations. The fact that Absa's performance was not affected by the Barclays acquisition payment method affirms the claim made by Rappaport and Sirower (1999) that acquirers take on the entire risk in cash transactions whilst this risk is shared in stock transactions. The researcher agrees that the payment method did not affect Absa directly but due to contagion risk, Absa's performance is directly affected by Barclays' performance. This risk was mitigated by the fact that Absa was not highly exposed to global instruments as was Barclays and, therefore, was shielded from the harsh effects of the global economic crisis.

Literature also states that cash is used if the acquiring firm believes that the acquirer's stock is undervalued and equity is used if it is believed that acquirer's shares are overvalued (Beitel et al., 2004; King et al., 2004). The researcher does not think that these choices were available to Barclays because a stock purchase would have had an effect on Absa's shareholders' investment decisions. Some of them may have had home country bias in the construction of their investment portfolios as stated by Grinblatt and Keloharju (2001). This was true for Remgro and Sanlam who needed cash to pursue strategies away from Absa and Barclays. Proposition 10 is not supported from the discussions above.

6.13 Discussion pertaining to Proposition 11: Low premium

Barclays stated that it paid a premium of 36.4% to the closing Absa Ordinary Share price on the last trading day prior to publication of the first cautionary announcement in relation to the acquisition on 22 September 2004. The purchase price for each share was R82.50. Barclays also locked in key shareholders such as Remgro at Sanlam at this price. The premium paid was slightly above the M&A premium estimation of Laamanen (2007) of around 20% to 30%.

Most respondents connected the premium paid to the synergies envisaged. R9 stated that the premium was paid in anticipation that synergies would be realised; the return on the premium was worked into the synergies and this was achieved within two years. This is consistent with Hitt *et al*. (2009) who explained that since premiums are paid to entice target shareholders to sell their shares with the view that the merger will generate synergies, the premium should never be greater than the envisaged synergies. Sirower (2000) stated that potential synergies are not easy to extract because of the challenges of achieving integration. This probably explains why the synergistic extraction process was very vigorous in this study. R15 commented that there was a disciplined approach applied to synergistic extractions. A proper case had to be put forward to justify any failure or obstacles to extract the identified synergies and more effort was applied in identifying alternative synergies.

Almost all respondents alluded to the fact that Barclays already recouped its premium from the rise in Absa's share price (which closed at R134.81 on 30 June 2011) and the dividend stream which Absa has paid Barclays thus far. Absa's share performance and its dividend payments to Barclays are shown in Appendix F and Appendix D respectively.

These findings indicate that Barclays was careful not to pay a very high premium by locking in its purchase price. Barclays also put in a rigorous process to ensure that synergies were extracted in order for it to recoup the premium it paid in acquiring Absa. Proposition 11 is therefore confirmed.

6.14 Discussion pertaining to Proposition 12: Effective communication

The fact that a dedicated communication team was set up within the integration team to handle communications to all stakeholders, alongside the investor relations team, signifies that Absa and Barclays regarded communication to be imperative in the acquisition process. R2 commented that communication was handled "with military precision". Furthermore, "it was customised to the kind of stakeholder, it was done at different times, at varying levels and depth, in different ways and at various intervals". R12 emphasised that it was important to deal with different stakeholders' needs as follows; investors – demonstrated how the deal would create value, employees – how the deal would contribute to career growth and the impact of the deal on jobs, regulators – benefit to the economy of bringing in foreign direct investment (FDI), and customers – better products and improved services etc.

R5 noted that various media were used depending on the audience or the issue at hand. There was face-to-face interaction with key people, direct involvement of staff members and their union, press releases, road shows and town halls. There was a walk-in office that was set up to deal with staff members' queries and concerns. R1 stated that the group CEO was often on internal television to give weekly updates to staff members even when there were no new developments on the transaction. R18 pointed out that timely and frequent communication to staff members was very important to allay fears and limit the loss of key people. R19 added that there were meetings held to explain the deal to top management in groups of top 50, top 100 and top 400. Communicating clearly, factually and consistently to staff has been advocated in literature by Nguyen and Kleiner (2003) who state that this helps employees to cope with merger stress and in turn increases their productivity. The authors further explain that lack of information distracts employees who either seek information on how the merger will affect them and their careers, or seek alternative jobs thereby sacrificing customer service in the process. This point is in agreement with R18's comment.

Since Absa was a listed company, some of the communication to stakeholders was prescribed by listing rules. Regulatory communication was posted on Johannesburg Stock Exchange (JSE)'s Securities Exchange News Service (SENS).

Customers' fears were also dealt with by assuring them that Absa would retain its identity and improve its services. This collaborates the view by Nguyen and Kleiner (2003) that delayed communication to customers on products and services can lead them to switch to competitors because of uncertainty.

Davy, Kinicki, Scheck and Kilro's (1989) guidelines on M&A communications, referred to by Appelbaum *et al.* (2000b), of timeliness, comprehensiveness repetitive in various media, credibility, rationale for changes and setting up a communication program to continue communicating throughout the transitional period were all present in this study thus validating proposition 12 .

6.15 Discussion pertaining to Proposition 13: Careful and quick selection of new leadership

Barclays issued a firm intention announcement on 9th May 2005, more than two months before the transaction was completed, in which it disclosed the new changes that were to be effected in Absa post-acquisition. This created some certainty pertaining to key roles in the organisation. Barclays announced that the then chairperson of the board of Absa Group would retain his position and was to be elected as a non-executive director to the boards of Barclays Plc and Barclays Bank Plc. The then CEO of Absa Group would also retain his position and also join Barclays senior leadership group and Barclays International Retail and Commercial Banking (IRCB) Executive Committee. Barclays would nominate one executive director and two non-executive directors to the boards of Absa Group and Absa Bank Limited.

On 27th July 2005, the day the transaction was completed, Barclays reaffirmed the above appointments and announced further management appointments which were in line with previous communications on the matter. R10 pointed out that Barclays clearly stipulated that it would appoint the heads of Human Resources (HR) and Risk as well as run key roles in internal controls such as audit. R11 stated that Absa and Barclays also agreed to deploy around 100 Barclays employees in Absa at various levels. R20 emphasised the need to create certainty by quickly understanding the target, giving it structure and then giving people roles in order to avoid losing key people. R1 pointed out the importance of people management; being transparent by ensuring you retain good people and getting rid of those who create obstacles. R9 alluded to the importance of keeping people in banking because banks are "IP based organisations". R18 concurred, adding that Absa was not a broken organisation, and therefore, there was no need to change a "winning formula" regarding managerial positions. Barclays was very clear of its position on management and jobs long before it finally acquired Absa. This created certainty for everyone, in turn reducing the potential for staff turnover that can arise from acquisition uncertainty.

Literature by Zollo and Singh (2004) states that the replacement of top management yields the highest level of negative results if the performance of the company prior to the acquisition was high or average. It is only beneficial for low-performing targets. The findings of this study collaborates Zollo and Singh's literature, therefore, proposition 13 is supported.

6.16 Discussion pertaining to Proposition 14: Strong integration structure

R10 explained that structures were created at all levels to oversee the implementation of the integration programme. A joint integration sub-committee was set up by Absa and Barclays directors at board level, and at senior management level, an integration director who was a member of the executive committee (exco) was appointed by Barclays and steering committees (steercos) were set up to oversee the various work streams. R10 further pointed out that an integration team was "ring fenced" to do the implementation in order to allow the rest of the business to focus on business as usual activities. The integration director, who successfully integrated the Spanish operations, and his team were brought into Absa immediately.

R3 explained that Barclays decided not to change any business structures; instead they aligned policies, principles, practices and underlying frameworks. R3 made an interesting point that "people were not asked but told to work on the integration team". Team members had to be "top" or "A performers" for the previous three consecutive years in their respective jobs. R3 emphasised that "the integration programme was a huge investment which needed top performers next to it". Integration team members were appointed to work on work streams based on their areas of expertise. Six top executives and thirty key members of the integration team were given incentives which were locked in for two years. They were to be paid out upon fulfilment of the integration objectives.

R3 shed more light on the structure of the integration team. Each team had a programme manager and a work stream leader and both reported to an accountable executive or business owner, who in turn reported to the integration director. The work stream leader and the programme manager roles were split between Absa and Barclays, or vice versa, at all times. There were 160 full time members of the integration team split 80/80 between Absa and Barclays. Contract and temporary employees were engaged on a need basis. There were usually around 300 - 400 people working on the integration team at all times. The team sat together and occupied an entire open plan floor in head office.

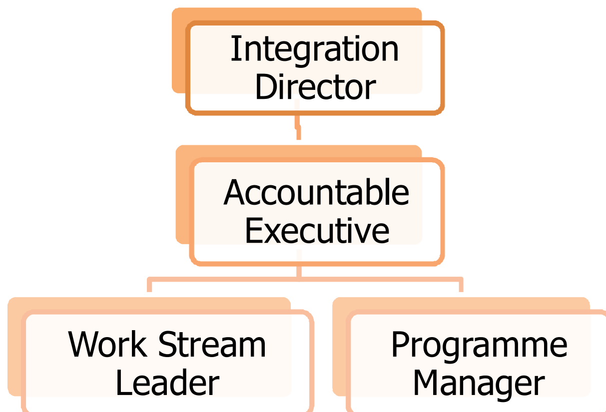

Figure 5: Absa Integration Team Structure

Source: Adapted from Absa integration documentation

Work streams were created for the main business areas and activities such as sourcing, compliance, marketing, retail banking, business banking, wholesale banking, card, communication, finance, treasury, tax, property, and IT etc. R9 explained that each work stream had a business case in which the identified synergies were clearly spelt out. R16 stated that each work stream had a responsibility to identify synergies, investigate them and agree on them with all stakeholders. Once they were agreed, they were signed off by all parties and then executed and delivered upon. Synergies were tracked, monitored, reported upon and finally audited. R9 explained that the integration had three phases; pre day 1 activities (must haves), 100 day plan (for critical activities) and post 100 day integration activities. By the time, the deal was completed and signed off, certain critical functions that were impacted by regulation were already integrated. This affirms the argument of Ashkenas *et al.* (1998) who found that integration does not begin after the deal is signed off but rather begins with the due diligence process.

A number of respondents said that Absa operations were not fully integrated into Barclays or vice versa. There were no major system changes but instead processes were enhanced. Only Absa Capital implemented Barclays Capital's models and systems. The researcher is of the view that this was probably because the appropriate level of integration for Barclays was low integration but this was nonetheless integration. This is aligned to the literature position that states that successful integration entails integrating at an appropriate level, otherwise the outcome may be detrimental (Child, Faulkner and Pitkethly in Duncan and Mtar, 2006). An acquirer can choose from four degrees of integration; total autonomy, restructuring followed by financial controls, centralisation or integration of key functions and full integration (Hubbard in Duncan and Mtar, 2006). However, R19 pointed out that integration takes a long time to complete and explained that certain operations were still being integrated into Barclays more than six years after the M&A transaction.

Nguyen and Kleiner (2003) stated that as soon as a deal is announced, an integration team that will work with management from both companies must be set up. This structure applied to the integration of Absa whereby each work stream had dual Absa and Barclays accountability and responsibility.

Absa and Barclays' integration team roles were full-time jobs; team members were focussed on integrating and extracting sustainable synergies. This is consistent with Ashkenas *et al* (1998) whose study found that integration management should be a full-time job just like operations, marketing or finance.

Appelbaum *et al.* (2000b) points out that the integration team must comprise of staff who have influence and credibility within the organisation. Robert East, who headed up the Absa integration team, was a senior executive who was well respected by the board, his peers and his staff because of his track record.

Integration team members also had credibility as they were top performers in their previous jobs. The discussion above validates proposition 14.

6.17 Discussion pertaining to Proposition 15: Involvement of top management

R3 stated that the integration director was the integration owner whilst Absa Group CEO was the integration sponsor. They were both accountable to the Absa and Barclays joint implementation sub-committees of the Absa board. The accountable executives for each work stream were the incumbent business heads. R10 stated that the business heads were actually building their future businesses, thus the quality of the work they put in determined the kind of business they would be responsible for in future. Most of the respondents acknowledged that this structure aligned the interests of all individuals with that of the organisation.

The visibility at all levels drove the correct behaviour across Absa. R3 felt that the top management sponsorship and involvement was the most important reason for the success of the integration implementation. Simpson (2000) implored senior managers to stay focussed on the deal after deal closure because a successful integration requires senior management involvement. Nguyen and Kleiner (2003) agree, stating that this is because middle managers are usually not empowered to commission resources or to make critical decisions. Gadiesh *et al.* (2003) collaborate the same argument through their assertion that a merger can only maintain its value if managers are actively involved in the integration process and steer the organisation towards the accomplishment of its strategic goals as quickly as possible. A similar view is held by Vasilaki and O'Regan (2008), who argue that an effective top management team has the ability to diffuse post-acquisition conflicts and better coordinate integration processes and business units.

The findings of this study coupled with the literature on senior management involvement affirm Proposition 15.

6.18 Discussion pertaining to Proposition 16: Appropriate cultural integration

Several respondents were of the view that there was no huge cultural divide between Absa and Barclays mainly because both companies used English as a medium of communication. However, R3 stated that there were differences in the interpretation of the English language because the British language is subtle but South African language is direct. R3 elaborated on the nature of these differences using the following example in which the two types of nationals communicate that they will not meet a deadline; a British national would say "I will really battle to make that particular timeline" and a South African would say "I do not have a snowball's chance in hell of meeting that deadline". R3 explained that both individuals are communicating that they may miss the deadline but they would be misinterpreted by the other national. "The British national would wonder why his South African colleague thinks his world was falling apart and the South African would think that the British national would complete the task only that he would have some difficulty". R8 and R5 pointed out that these cultural differences were ironed out by constant communication, presentations and frequent meetings. R6 claimed that the British went on summer holidays in August and South Africans preferred to take leave in December. "This caused some friction because progress on certain matters slowed down in August whilst Barclays people were on leave but they would push for things to be done in December when South Africans switch into festival mood and take leave." R6 also claimed that Barclays felt that Absa did not appropriately deal with non performers. An Absa manager would tell a non performing employee that "you can do better than this" but a Barclays manager would say "you are not cutting it, this is unacceptable".

Although these subtle cultural differences existed, there was no specific process instituted to align or change Absa's culture to that of Barclays. R9 mentioned that the cultural audit done on Absa revealed that Absa's culture was ten plus years behind that of Barclays; being too consultative, hierarchical and very paternalistic, whereas Barclays was the opposite. R9 stated that the intention to create a cultural work stream in the integration team was shelved as it was considered to be negative. R5 observed that other than the high hierarchy, Absa was rules driven whilst Barclays was values driven; "an Absa person expects to be told what to do and how to do it but a Barclays person just needs a framework to take accountability and control of his or her environment". R11 felt that Barclays introduced a culture of focussing on performance versus reward with no loyalty, a departure from Absa's previous culture of caring and friendliness. R11 claimed that although Absa's remuneration was not at the top end of the industry, employees were loyal to Absa because they felt they belonged.

R7 and R15 stated that the cultural differences were not very evident to the average Absa employee because Barclays was geographically remote and there were few Barclays people deployed in Absa. R7 experienced the Nedbank and BOE merger and was of the view that "Absa was blessed because it did not have to merge and close branches and combine people from separate organisations". Frictions and favouritism are usually evident in such situations and most people leave those organisations. R4 pointed out that the few Barclays people who were deployed in Absa "behaved like they owned the whole Absa", which irritated Absa people. The researcher notes that the limited number of Barclays people deployed in Absa probably cushioned Absa from a lot of conflict.

R18 pointed out that "Absa as a business was doing very well; hence there was no need to change a winning formula". R19's view was that "culture is like religion, you have to respect it and be careful about how you approach cultural change". R2 and R10 stated that the two parties agreed not to enforce cultural changes on Absa, instead they agreed on a set of values to guide the post-acquisition Absa behaviours. R16 stated that Barclays was polite, sensitive, accommodating and avoided aggression when it came in; "it did not fire top people to put in its own and then start afresh". R16, however, thought this later disadvantaged Barclays because despite "Barclays having a majority stake in Absa, it did not have control of the Board and only had three members" out of twenty one adding that "this was unusual for a majority shareholder." R5's view was that Barclays was "too participatory and collaborative but that is good for a merger, not an acquisition." R4 and R10 pointed out that since Absa still had a big minority shareholding of over 40%, minority interests needed to be protected. The Absa board instituted mechanisms to govern Absa's relationship with Barclays in order to limit interference from Barclays. The researcher is of the view that the National Treasury's condition on Barclays to maintain Absa's South African character may have played a role in this decision as explained on the discussion pertaining to proposition 18.

However, R1, R15, R16 and R19 pointed out that since Barclays was a majority shareholder, certain policies, processes and procedures had to be aligned to Barclays, for example reporting formats and adherence to deadlines and risk frameworks. Furthermore, the business units of risk and internal controls were run by Barclays, and so logically, Barclays' ways of working filtered into other areas of Absa. R1 illustrated how Absa ways of doing things changed in that, "previously Absa was not strict on deadlines, one could present a report three days later without any problems but with Barclays, deadlines are not negotiable and there are repercussions for missing deadlines." Hence, naturally, Barclays has modified Absa ways of doing things and its culture is being adopted by Absa. It can be deduced that the adoption of Barclays culture by Absa is not by choice but by necessity or requirement from Absa's perspective. Based on the acculturation models of Nahavandi and Malekzadeh (1988), Absa's culture now falls into the "integration" mode and it is on the "multicultural" level.

M&A literature states that successful integration is not about how well the business is integrated, but more about integrating a firm at an appropriate level because an inappropriate level of integration might be detrimental (Child, Faulkner and Pitkethly in Duncan and Mtar, 2006). The authors found that an acquirer can sit anywhere on an integration continuum ranging from a low integration to partial and then total integration. Furthermore, there are four degrees of integration from which firms usually choose; total autonomy, restructuring followed by financial controls, centralisation or integration of key functions and full integration. The researcher contends that Absa's actual integration lies on the continuum between restructuring followed by financial controls and centralisation or integration of key functions, advocated by Child, Faulkner and Pitkethly, in Duncan and Mtar (2006). Proposition 16 is hereby supported.

6.19 Discussion pertaining to Proposition 17: Speed of Integration

A number of respondents noted that quicker integration enabled the team to extract synergies earlier thereby increasing the return on the investment. It motivated people in the organisation and created certainty in the business. R8 stressed that "the sooner you get the benefits, the sooner you start focussing on the customer". Integration introduces the risk of losing customers because "your eyes are taken off the ball". R3 commented that it was important to get things done quickly because "momentum generates more momentum". R16 raised an important point that while it is not good to rush integration, it is equally not good to let it lag for too long. R19's view was that "the quicker you do it, the better the potential for success and the longer it takes, the higher the chances of failure". R4 stated that the integration team did well to extract synergies ahead of time otherwise the programme would have been distracted by the financial crisis which began around 2007. The integration plan was for three years but synergistic benefits were extracted eighteen months earlier than scheduled as tabulated in Appendix G. The Absa Group 2007 annual report stated that the integration objective was to improve profit before tax by R1.4 billion every year after investing R1.8 billion over three years. This was achieved by the end of 2007, eighteen months ahead of plan. Actual sustainable synergies as at 31 December 2007 were R1.428 billion.

The results and discussion pertaining to proposition 2 indicates that Absa and Barclays had high internal relatedness. Since integration of Absa and Barclays yielded positive results in less than two years, it indicates the success of the integration in affirmation of the finding by Homburg and Bucerius (2006), that quick integration yields positive results in high internal related deals. Literature from management consultants (PricewaterhouseCoopers, 2000; Fujitsu Consulting, 2001; Bert et al., 2003) identified integration speed as a success factor for M&A performance because quick implementation minimises uncertainty for the stakeholders of the merged firms. Viscioa *et al.* (1999) also attests that a post-merger process should be done in such a way that as much value as possible is captured as quickly as possible. In addition, then A.T. Kearney consultants, Bert, MacDonald and Herd (2003), claimed that a company should make a deal work in just two years with non-manufacturing companies realising 85% of the synergies in the first year and the rest in the second year. Absa and Barclays meet this timeline.

The literature on integration speed and the outcome of the Absa integration supports proposition 17.

6.20 Discussion pertaining to Proposition 18: External Factors

Almost all respondents alluded to the conditions that were put in place by regulators, namely, SARB, South African National Treasury and the UK's Financial Services Authority (FSA). R3 and R16 pointed out that the conditions were onerous on Barclays. Respondents could not give specifics of the said conditions. The existence of these conditions was confirmed from the following extract taken from a media statement issued by the National Treasury on 8th May 2005;

> "A number of conditions of approval have been communicated to Barclays, taking into account the requirements of the Banks Act, ongoing maintenance of the soundness of the South African financial system and prevailing policy objectives. Barclays has communicated its unequivocal agreement with these conditions and a commitment to a long-term partnership with ABSA".
>
> (South Africa, 2005 P:2)

Some of the conditions mentioned in the media statement included Barclays having to maintain the South African character of Absa by having a locally-based South African as CEO with the majority of the executive management team of

Absa also required to be South African citizens based locally. Barclays may have been unable to take certain actions which would have further improved the financial performance of Absa. No amount of due diligence could have changed this as stated in literature by Epstein (2005) who found that certain external factors which influence the success of M&As are beyond the control of an acquirer and they cannot be foreseen or mitigated. Proposition 18 is, therefore, validated.

6.21 Discussion pertaining to Other Factors: Incentives

Barclays introduced two new executive compensation plans which were intended to retain key members of the management team and deliver the Barclays business case for the acquisition of a controlling stake in Absa.

> "The first plan, known as the Barclays Special Incentive Plan, will be delivered in Barclays shares, but will be dependent on Absa's performance relative to the achievement of the business case* in terms of the acquisition of a controlling stake in the Absa Group. The plan is aimed at key individuals, namely S F Booysen, D Bruynseels, J H Schindehütte, L L von Zeuner, R R Emslie and N P Mageza. The costs associated with the plan will be borne directly by Barclays. The rationale for this is that the incentive is specifically designed to drive the objectives of Barclays for the business. The Barclays and Absa remuneration committees will approve any awards under this plan and will scrutinise the performance outcomes. The second plan consists of a special discretionary performance bonus for the top 40 roles below board level, but participation is not automatic. Key criteria include the delivery of the business case* in terms of the acquisition by Barclays of a controlling stake in Absa and on an individual's performance. The participants also include a number of individuals assigned to Absa from Barclays. The bonus, which may be up to 200% of guaranteed pay, will be delivered in cash by Absa after two years subject to individual performance assessments, taking into account delivery of the business case*, including growth in profit before tax, the realisation of synergies, the management of restructuring costs and personal contribution. The Absa Remuneration Committee will approve any awards under this plan, and will scrutinise the performance outcomes."
>
> ** Delivery of the business case means realisation of the synergy benefits as well as the delivery of Absa's business-as-usual performance.*
>
> (Absa, 2005b P: 36)

The Absa Group 2007 annual report disclosed that integration synergies had been extracted during the year hence R61 million was paid out to thirty key individuals under the special discretionary performance bonus agreed upon in November 2005. Barclays' special incentive plan for five Absa senior executives and one Barclays senior executive comprising only of Barclays shares vested in October 2008. Four of the six aforementioned participants elected to vest their awards in October 2008, one participant deferred his award for a further three-year period and the sixth recipient left Barclays a year before the awards vested.

Respondents were of the view that incentives played a very big role in the successful integration of Absa and Barclays particularly the extraction of sustainable synergies. R3 stated that incentives aligned people's behaviours to the company's objectives and they made people to "walk the extra mile". R12 and R18 said it forced people to "push the limits" and put in "the extra effort and time" respectively. R19 stated that incentives made people be "more committed to the process". R7, R10, R11 and R15 indicated that incentives forced people to be focussed. R4, R17 and R20 emphasised that the incentives did not only entice people to work harder but they also locked them in to avoid losing skills and to ensure continuity. R9 raised an interesting angle to the issue of incentives by stating that certain people were not only incentivised financially but career-wise. The respondent mentioned that M&A experience was highly valued in the UK and former Barclays staff who were scheduled to go back to the UK after the integration were incentivised by the opportunity of gaining M&A experience.

The researcher did not come across the use of incentives as a CSF in M&A literature. The use of incentives as a performance motivator is instead found in performance management literature. A study by Sprinkle (2000) found that individuals on incentive-based contracts performed better than those on flat wage contracts when the type of incentive has a profit maximisation motive coupled with the constant provision of performance feedback since it improves the individuals' decision-making capability. Furthermore, it increases the learning rate and curve and increases both the duration and intensity of effort. Absa and Barclays integration staff members had a profit maximisation motive and their performance was constantly tracked, in agreement with Sprinkle's findings. Meta-analysis on the effect of incentives on performance done by Condly, Clark and Stolovitch (2003) revealed that the outcome of team-based incentives was better than individual-driven ones and that money-based incentives generated better performance than non-monetary incentives. The authors attributed the better performance of teams to 'team psychology" or "group motivation" that arises through individuals working together for some time and becoming positively motivated. Absa's special discretionary performance bonus was cash based. Although the integration team members had individual performance contracts, most of their achievements were team dependent, for example the performance of people on all work streams determined the performance of the respective team's work stream leader and the programme manager, who in turn had an impact on the accountable executive's performance. The accountable executive's performance influenced the integration director's performance, ultimately impacting on the integration sponsor's performance. Therefore, "group motivation" contributed to positive performance in this instance.

Based on the discussion above, the use of incentives is a CSF in M&As and the researcher calls for further M&A research in this area.

6.22 Discussion pertaining to Performance Management: Event Studies

As shown in Figure 6, Absa share price increased steadily from the time a cautionary statement was made announcing Barclays' acquisition negotiation on 22 September 2004. The cumulated stock market returns created shareholder value for Absa shareholders which is indicative of positive performance as propagated by Altunbas and Marqués (2008).

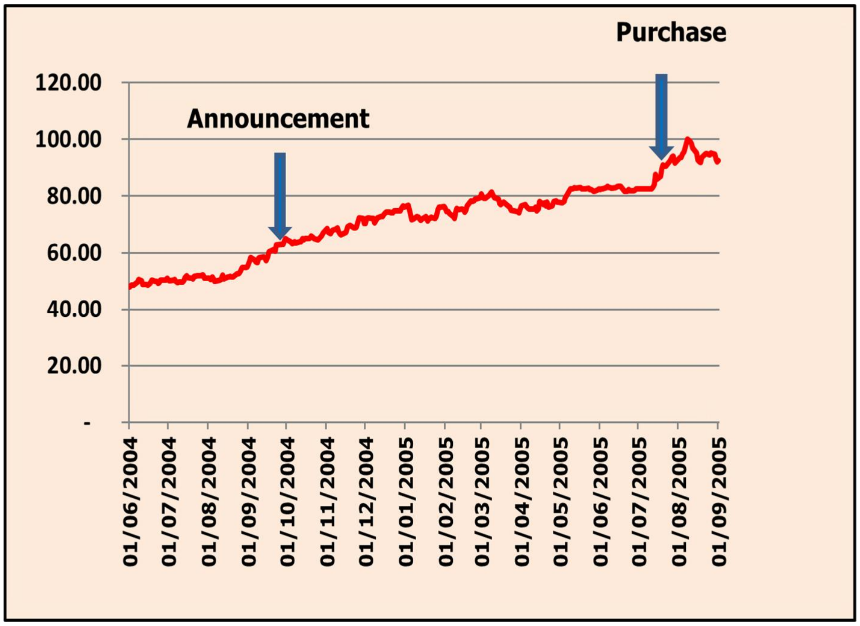

Figure 6: Absa share movement around the acquisition period

Source: Share prices obtained from I-Net Bridge

Absa's share performance has been compared to key indices as well as the three other big banks in Appendix F. The indices used were the JSE All Share Index, JSE Banks Index, JSE Financials Index and MSCI Emerging Markets Index. Absa performed better than both the bank index and the financials index from 2002 to mid-2011. Absa's share has also performed better than both Standard Bank Group and FirstRand Group since 2005 but it has been trailing behind Nedbank Group. Based on the research of Altunbas and Marqués (2008) in which they analysed share value creation using cumulated stock market returns, Absa's share had generated shareholder value. Absa's share price closed at R60.50 on 22 September 2004 a day before a cautionary statement was issued to the market and it rose and closed at R93.75 on 27th July 2005, the day Absa and Barclays completed the deal.

6.23 Discussion pertaining to Performance Management: Accounting Measures

Accounting and financial analysis was done on Absa and its three big peers i.e. Standard Bank, FirstRand and Nedbank. The analysis covered a period of eleven years from 2000 to 2010 in order to analyse and understand Absa's performance pre and post-acquisition. Absa's cost to income ratio improved and performed better than the other three banking groups until 2009. Its ROE also outperformed other banks during the same period. Generally Absa's cost of equity, impairments and interest income diversification was better than it was pre-acquisition. Absa's price earnings ratio lagged behind other banks pre-acquisition but is now aligned to the others. Absa's dividend cover has outperformed the other three banks and its earnings yield and dividend yield was in tandem with Standard Bank, Nedbank and FirstRand. Ironically, Standard Bank's dividend cover, dividend yield and earnings yield lagged behind its peers despite having partnered with a major Chinese Bank, ICBC, in 2007. The aforementioned financial analysis is detailed in Appendices H, I and J. Accounting measures are not conclusive because there are usually lags between the completion of M&As and the realisation of operational improvements (Houston et al., 2001), coupled with distortions caused by accounting rules governing mergers, for example fair value accounting.

The researcher draws attention to the fact that certain figures used in the analysis are not completely comparable because the banking groups restated some of the figures to international financial reporting standards (IFRS) and this was not done consistently across the four banks. FirstRand's financial year has a six months time lag behind the others. In addition, the comparison might have been distorted by the four banking groups' variant compositions of banking activities, investments and insurance.

Although Barclays' acquisition of Absa cannot be directly linked to this performance, it indicates that Absa's performance post-acquisition is better than it was pre-acquisition.

6.24 Conclusion

The discussions pertaining to all propositions indicate that seventeen of the eighteen propositions were validated in the acquisition deal between Absa and Barclays. The CSF factors confirmed were strategic alignment, similarity (relatedness) of a target to its acquirer, existence of complementary resources, expansion into new geographic locations, introduction of new products, acquisition of new customers, acquisition experience of the acquirer, conducting a thorough due diligence, larger size of the acquirer, low premium, effective communication, careful and quick selection of the target's leadership, a strong integration structure, appropriate integration of diverse corporate cultures, involvement of top leadership, speed of integration, and absence of external factors. Stock purchase did not affect Absa's performance. However, if Barclays' financial performance had been negatively affected for any reason, its integration programme with Absa would have been derailed. The payment of incentives to key people tasked with the integration emerged as a CSF in this study.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This final chapter will summarise the key findings based on the discussion of the propositions presented in this study in order to arrive at an overall conclusion for the study. Some recommendations arising from the research are presented to key managers working for M&A acquirers and targets, M&A deal advisors and academia in South Africa. Suggestions for future research have also been put forth. The researcher came across certain areas which fell outside the scope of this study, and others warrant further investigation into the CSFs for M&As.

7.2 Conclusions of the study

M&A is a complex function because it encompasses various other complicated activities such as due diligence, negotiation, financing and integration (Hitt et al., 2001). These require expert execution which may not be easily transferable between geographies. Seventeen out of the eighteen propositions tested in this research were validated in the acquisition transaction between Absa and Barclays. The study did not rank these propositions in any way, no rank or model was identified in literature that could be used as a yardstick. M&A literature is fragmented across many disciplines with limited consolidation of all CSFs. Although each M&A deal is unique, most of the identified CSFs in this study affects every deal. The researcher's observation is that most M&A CSFs influence the success rate of deals, have an impact on other M&A CSFs and they are also impacted by other M&A CSFs. The impact and relationship between M&A CSFs can be encapsulated as follows;

- An entity must first devise its vision and strategy long before it seeks a target.

- Once the strategy has been devised, the acquirer then searches for a potential target whose strategy is aligned to the acquirer's.
- Experience makes this search easier and assists the acquirer in doing a proper due diligence.
- A detailed due diligence confirms key core business focus areas in respect of similarity of operations, complementarities, geography, products and customers. It also identifies risks and opportunities.
- The outcome of the due diligence firstly aids the acquirer in determining the price that should be paid and informs the acquirer of the appropriate deal structure. Secondly, it helps the acquirer to plan the integration of the target as follows;
    - Selecting the right leaders to task with the management of the company. This includes identifying and tasking top management to integrate the organisations. Furthermore, the acquirer should ensure that the objectives of individuals and the organisation are properly aligned to be able to extract the identified synergies. This is best achieved by incentivising key individuals.
    - Timeframes – how long would this take?
    - Due diligence informs the integration structure to be utilised that would be able to effectively communicate with all stakeholders, appropriately integrate corporate cultures and extract synergies.
- A good deal structure will limit paying a high premium and be able to extract the identified synergies. If planned and executed properly, the deal would be able to achieve its financial objectives save for external factors.

As explained above there is some causal loop in many respects, for example a shallow due diligence will not uncover the risks and opportunities, hence potential synergies will not be identified and may ultimately lead to failure to obtain a return on the investment.

7.3 Recommendations

This research is significant to those who engage in M&As as well as M&A practitioners as it consolidates the literature with the key learnings from the Absa and Barclays acquisition transaction. M&A literature is fragmented across many disciplines such as strategic management, international business, human resource management, and finance (Shimizu et al., 2004). This fragmentation coupled with the fact that the acquisition process consists of many other complex interdependent sub-activities, such as due diligence, negotiation, financing and integration (Hitt et al., 2001) exacerbates the complexity of engaging in M&As. Based on the findings of this study and the learnings thereof, the following recommendations are proposed for those who engage, or intend to engage, in M&As and professionals in this industry.

- There was a huge disappointment expressed by respondents for Absa and Barclays' failure to do phase II of the deal. Most respondents were of the view that this was because there were a lot of senior management changes at Barclays, the leadership that had agreed to the Absa deal left Barclays and the new leadership did not have the same objectives. Appendix K shows what Phase II would have looked like for Barclays based on various scenarios. It was acknowledged that Barclays did not renegade on any contract because phase II was an intention, not a contractual obligation, and there were no agreed timelines. Since phase II was a huge motivator for Absa, they should have made phase II more certain by clearly stipulating methods of valuation calculations and timelines with Barclays. If an M&A deal has phases, the parties must ensure that all phases are contracted for.

- Sequence of events – It is important to get protocols right. The then governor of SARB publicly reprimanded Barclays officials for meeting with the Republic's president before they meet with him. Getting protocols wrong can create bad feelings that can hamper the negotiation process.

- Incentivise people – it was evident in this transaction that incentives played a key role in ensuring that synergies were extracted. The incentive contracts agreed with key people aligned the objectives of individuals with those of the organisation. This study has found that payment of incentives is a CSF in M&As.

- Attributes of the integration head – most of the respondents spoke fondly of Robert East, the Integration Director who was appointed by Barclays to integrate Absa. He also integrated Banco Zaragozano, Barclays' 2003 Spanish bank target. They stated he had good people skills, good experience at executing deliverables, was highly regarded and respected and had excellent planning and proactive skills. Respondents felt that most of the successful outcome of the integration is owed to him. Practitioners and acquirers are hereby implored to carefully select an integration head based on the aforementioned qualities.

- Dedicated integration team – integrating two or more organisations is not a simple task. It is imperative to set up a dedicated integration team and task it with the integration responsibility. This study found that a dedicated integration team enabled Absa and Barclays to rigorously extract synergies whilst simultaneously running the rest of the business. Lack of a dedicated team creates bottlenecks in the day-to-day operations of a company engaged in an M&A.

- The researcher realised that the synergy extraction process was rigorous and it was taken very seriously. Entities engaged in M&As should strive to be inclusive in determining synergies and then make people accountable for the extraction of those synergies. The synergy extraction process in Absa was aligned to normal business processes and signed off by all stakeholders. The buy-in from all parties generated accountability and cooperation.

- The governance mechanisms put in place by the Absa Board to protect minority interests should be emulated by acquired entities with minority interests. This kind of governance creates clarity by stipulating roles and responsibilities. The responsibilities and deliverables of Absa were documented. Any required regulatory approvals in this respect were sought in advance to limit frustrations in execution. In addition, Barclays cannot exercise undue influence on Absa owing to its majority ownership.

7.4 Suggestions for further research

M&A is a wide topic that encompasses other faceted and complex areas such as due diligence, negotiation, financing and integration. Research can be streamlined in each of the above-mentioned topics. Furthermore, each of the identified CSFs can be a stand-alone research topic, particularly when comparing how different deals fared on an identified CSF. M&As have not been well researched in South Africa; most of the analysis for this study was done in comparison with European and American literature. The studies quoted in this research can be replicated in the South African context.

The findings of this study identified incentives as being a CSF in M&As but there was no mention of this in any of the M&A literature used by the researcher. This topic can further be investigated with a potential research topic being: *the impact of incentives on M&A performance in South Africa.*

Most of the literature on M&As is descriptive and not prescriptive. This is probably because each M&A deal is unique. Far more case studies need to be carried out in this field to enable practitioners to use a number of cases to draw comparisons on, and to understand the "how" and not only the "what" given in literature.

The experience of the acquirer is stated as a CSF in M&As. The Absa study indicated that although Absa was the target, it was able to draw on its prior experience with M&As in dealing with Barclays. This is especially important when there are minorities to protect as was in Absa's case. Absa respondents stated that the company did not experience a high staff turnover because its employees were used to change. Further research is warranted on the impact of the target's prior M&A experience on the success rate of an M&A transaction.

The researcher came across arguments in literature claiming that cost synergies are better than revenue synergies. Barclays' main synergy benefit came from a revenue stream of 60%, invalidating this argument. Furthermore, it has been found that the pressure to achieve synergies forces managers to take extreme cost cutting measures. Restructuring processes and staff retrenchments can be detrimental to organisations since their human capital gets eroded (Cording et al., 2008). The researcher is of the view that synergy extraction is challenging for both costs and revenues. What matters is a proper identification of synergies coupled with implementation of a rigorous and disciplined process to extract the identified synergies. An investigation can be done into both cost and revenue synergies to understand when it is appropriate to focus on either stream.

Some respondents in this study questioned the argument that it is better to have a "larger acquirer" in relation to the target. They felt it would be more appropriate to redefine "large" in terms of capability and resource base. The "size" argument calls for a refinement in literature, and should be further studied to identify what aspect or kind of "size" impact M&As.

This case study revealed that Barclays' acquisition of Absa did not only attract top tier customers to Absa but it also attracted skilled people both locally and internationally. A study is warranted to gain more insights into the attraction of skilled people to a company after an M&A transaction. This area can be researched upon with a possible research question being: *The attraction of skilled workers to newly merged and acquired companies in South Africa.*

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APPENDIX A

Letter to Respondents

Dear Respondent,

I am pursuing my Master of Business Administration (MBA) degree at the University of the Witwatersrand, Johannesburg (Wits Business School). As part of the requirements for the degree I am doing a research on the critical success factors in mergers and acquisitions (M&As) in South Africa using the case of Absa and Barclays. In gathering data on this subject, I would be grateful if I could arrange a one hour interview with you to understand your experience of the Absa and Barclays transaction. I understand that you are extremely busy and your agreement to contribute to my research is greatly appreciated.

The Absa and Barclays deal is very important because at a cost of over R30 billion, it was then the largest foreign direct investment into South Africa. Also, analysis into M&As indicates that more than 70% of the deals fail to create shareholder value. Absa and Barclays is reported to have managed to achieve their anticipated synergies eighteen months earlier than planned and the integration cost was within the estimated cost. This case is a good learning point for students and academics.

The interview will primarily focus on your experience of this acquisition. Confidentiality will be observed throughout the research process and the final report will be for academic purposes only. I will be able to meet you at a location and time of your convenience.

Thank you for your kind assistance.

Yours sincerely,

Ophelia Nyambe

Contact number: +27 82 6898 983

APPENDIX B

Research Interview Questions

<u>Question 1</u>

In what way where the merger and acquisition strategic objectives of both Absa and Barclays aligned? How did the compatibility in strategies impact on the deal?

<u>Question 2</u>

How was the deal financially impacted by the similarity (relatedness) between Absa and Barclays operations?

<u>Question 3</u>

How did the complementary resources between Absa and Barclays influence the success rate of the transaction?

<u>Question 4</u>

How does geographical expansion benefit or deter the financial achievement of an acquisition?

<u>Question 5</u>

What new products were added to Absa's product range and how did that contribute to the achievement of Absa's financial objectives?

<u>Question 6</u>

What type of new customers did Absa attract by being acquired by Barclays and how did that benefit Absa's financial position?

<u>Question 7</u>

To what extent do you think Barclays' prior experience in acquisitions before it acquired Absa impacted on the success rate of its acquisition of Absa?

<u>Question 8</u>

How did the due diligence process influence the financial performance of Absa post-acquisition?

<u>Question 9</u>

In what way did the size of Barclays in relation to Absa impact on the success rate of this acquisition?

Question 10

In what way did the premium paid by Barclays impact on the financial outcome of the deal?

Question 11

How was communication handled with all stakeholders throughout the merger process, and how did that impact on the deal?

Question 12

In what way did the quick selection of the post-acquisition Absa leadership influence the performance of the transaction?

Question 13

How were the operations of Absa and Barclays integrated?

Question 14

How did the involvement of Absa and Barclays management and their respective boards influence the performance of this deal?

Question 15

How were the corporate cultures of Absa and Barclays integrated and how did this influence the outcome of the deal?

Did Absa acquire the Barclays' culture or vice versa? What motivated this choice?

Question 16

How did the speed of integration influence the success rate of the acquisition?

Question 17

To what extent did any issues external to Absa and Barclays affect this transaction?

Question 18

How did the incentives offered to key individuals influence the success rate of the acquisition?

Question 19

Why was phase II of the transaction not carried out and how did this impact Absa?

Question 20

In your view, what was the most important factor that helped in the implementation of the agreed strategies? In retrospect, what would Absa do differently if it were to do this deal all over again?

APPENDIX C

Table 5: Consistency Matrix

Research problem stated here –To determine the critical success factors in mergers and acquisitions in South Africa.					
Main Problem	**Literature review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
To determine the critical success factors in mergers and acquisitions in South Africa.	(Viscio et al., 1999; Aiello and Watkins, 2000; Bower, 2001) (Palich et al., 2000; Hitt et al., 2001; King et al., 2004; Homburg and Bucerius, 2006) (Stern and Henderson, 2004; Wang and Zajac, 2007; King et al., 2008; Kim and Finkelstein, 2009). (Hitt et al., 1998; Duncan and Mtar, 2006).	Proposition 1: Strategic alignment between an acquirer and a target is a CSF in an acquisition. Proposition 2: Relatedness of a target to its acquirer a CSF in an acquisition. Proposition 3: Existence of complementary resources between an acquirer and a target is a CSF in an acquisition. Proposition 4: Expansion into new geographies is a CSF in an acquisition.	The researcher conducted open ended semi structured interview sessions using a voice recorder in capturing conversations with respondents. The study sought to understand the critical success factors in the acquisition of Absa by Barclays. Therefore, the sample was purposeful as it comprised those who were involved in the deal.	Rich, descriptive narratives of participants' experiences aimed at gaining in-depth understanding of the subject.	Content Analysis.

Research problem stated here –To determine the critical success factors in mergers and acquisitions in South Africa.					
Main Problem	**Literature review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
To determine the critical success factors in mergers and acquisitions in South Africa.	(Altunbas and Marqués, 2008) (Selden and Colvin, 2003; Cullinan et al., 2004). (Aiello and Watkins, 2000; Zollo and Leshchinkskii, 2000; Vermeulen and Barkema, 2001; Reuer et al., 2004; Nadolska and Barkema, 2007). (Angwin, 2001; Cullinan et al., 2004) (Zollo and Leshchinkskii, 2000; Bower, 2001; Beitel et al., 2004; Chatterjee, 2009) (Beitel et al., 2004; Carow et al., 2004; King et al., 2004).	Proposition 5: Introduction of new products is a CSF in an acquisition. Proposition 6: Acquisition of new customers is a CSF in an acquisition. Proposition 7: The acquisition experience of the acquirer is a CSF in an acquisition. Proposition 8: Conducting a thorough due diligence a CSF in an acquisition. Proposition 9: Having a larger acquirer in relation to a target is a CSF in an acquisition. Proposition 10: Purchasing a target using stock is a CSF in an acquisition.	The researcher conducted open ended semi structured interview sessions using a voice recorder in capturing conversations with respondents. The study sought to understand the critical success factors in the acquisition of Absa by Barclays. Therefore, the sample was purposeful as it comprised those who were involved in the deal.	Rich, descriptive narratives of participants' experiences aimed at gaining in-depth understanding of the subject.	Content Analysis

Research problem stated here –To determine the critical success factors in mergers and acquisitions in South Africa.					
Main Problem	**Literature review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
Determine the critical success factors in mergers and acquisitions in South Africa.	(Eccles et al., 1999) (Appelbaum et al., 2000b; Nguyen and Kleiner, 2003; Messmer, 2006). (Zollo and Singh, 2004). (Ashkenas et al., 1998; Appelbaum et al., 2000b; Angwin, 2001; Gadiesh et al., 2003). (Simpson, 2000; Gadiesh et al., 2003)	Proposition 11: Paying a premium which is less than the synergistic value is a CSF in an acquisition. Proposition 12: Effective and extensive communication is a CSF in an acquisition. Proposition 13: Careful selection of a target's leadership is a CSF in an acquisition. Proposition 14: A strong integration structure is a CSF in an acquisition. Proposition 15: The involvement of top management is a CSF in an acquisition.	The researcher conducted open ended semi structured interview sessions using a voice recorder in capturing conversations with respondents. The study sought to understand the critical success factors in the acquisition of Absa by Barclays. Therefore, the sample was purposeful as it comprised those who were involved in the deal.	Rich, descriptive narratives of participants' experiences aimed at gaining in-depth understanding of the subject	Content Analysis

Research problem stated here –To determine the critical success factors in mergers and acquisitions in South Africa.					
Main Problem	**Literature review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
Determine the critical success factors in mergers and acquisitions in South Africa.	(Bijlsma-Frankema, 2001; Nguyen and Kleiner, 2003; Salama et al., 2003; Appelbaum et al., 2007b). (PricewaterhouseCoopers, 2000; Fujitsu Consulting, 2001; Bert et al., 2003). (Epstein, 2005)	Proposition 16: Appropriate integration of diverse corporate cultures is a CSF in an acquisition. Proposition 17: The quick integration of an acquirer is a CSF in an acquisition. Proposition 18: Absence of external factors is a CSF in an acquisition.	The researcher conducted open ended semi structured interview sessions using a voice recorder in capturing conversations with respondents. The study sought to understand the critical success factors in the acquisition of Absa by Barclays. Therefore, the sample was purposeful as it comprised those who were involved in the deal.	Rich, descriptive narratives of participants' experiences aimed at gaining in-depth understanding of the subject.	Content Analysis.

APPENDIX D

Absa Dividends Paid to Barclays

	Payment date	Shareholding Percentage	Number of shares	Dividend per share (cents)	Dividend paid (Rands)	Exchange rate*	Dividend paid (GBP)**
2005 - Interim	27-Dec-05	56.40%	376,106,262	160	601,770,018.78	10.9563	54,924,565.66
2005 - Final	20-Mar-06	56.60%	377,527,453	135	509,662,061.55	10.9640	46,485,047.57
2006 - Interim	04-Sep-06	56.60%	379,307,772	208	788,960,165.51	13.6150	57,947,863.79
2006 - Final	19-Mar-07	56.45%	379,304,853	265	1,005,157,860.45	14.4150	69,729,993.79
2007 - Interim	03-Sep-07	57.60%	388,774,123	240	933,057,894.29	14.5150	64,282,321.34
2007 - Final	17-Mar-08	58.77%	378,774,945	320	1,212,079,824.00	16.1992	74,823,437.21
2008 - Interim	01-Sep-08	58.80%	378,774,945	265	1,003,753,604.25	13.9186	72,115,988.98
2008 - Final	09-Mar-09	58.62%	378,774,945	330	1,249,957,318.50	12.6945	98,464,478.20
2009 - Interim	31-Aug-09	55.40%	378,774,945	225	852,243,626.25	11.9987	71,027,996.89
2009 - Final	15-Mar-10	55.52%	378,774,945	220	833,304,879.00	11.4131	73,013,018.29
2010 - Interim	30-Aug-10	55.50%	378,774,945	225	852,243,626.25	10.9903	77,545,073.95
2010 - Final	14-Mar-11	55.50%	378,774,945	230	871,182,373.50	11.0337	78,956,503.58
TOTAL					**10,713,373,252.33**		**839,316,289.24**

Source: Absa 2005 to 2010 Interim and Annual Reports.

* Based on I-Net Bridge rates on the payment date.

**This is an estimate based on I-Net bridge rand to pound exchange rates. The actual dividends may have been paid at different exchange rates. Therefore, the actual dividend amounts paid to Barclays may differ from what is indicated in this table.

APPENDIX E

Absa Geographical Representation Pre- & Post-Acquisition

I. Subsidiaries

Country	Name of Bank	Absa shareholding	Reporting Date	Comment
Tanzania	National Bank of Commerce Limited (NBC)	55.0%	31-Mar-05	Shareholding has remained the same as at 31 Dec 2010
Mozambique	Banco Austral, Sarl*	80.0%	31-Mar-05	Increased shareholding to 95.9% on 7 Juy 2010 through a rights issue
Namibia	Capricorn Investment Holdings Limited **	35.1%	31-Mar-05	Absa sold its shares during 2006
Zimbabwe	Commerce Bank of Zimbabwe (CBZ) Holdings Limited	25.9%	31-Mar-05	Disposed of in 2007
Angola	Banco Comercial Angolano	50.0%	31-Dec-05	Acquired in April 2005 and sold in June 2009

*Changed its name to Barclays Bank Mozambique S.A. in December 2007
**Parent company for Bank Windhoek

II. Offices and interests

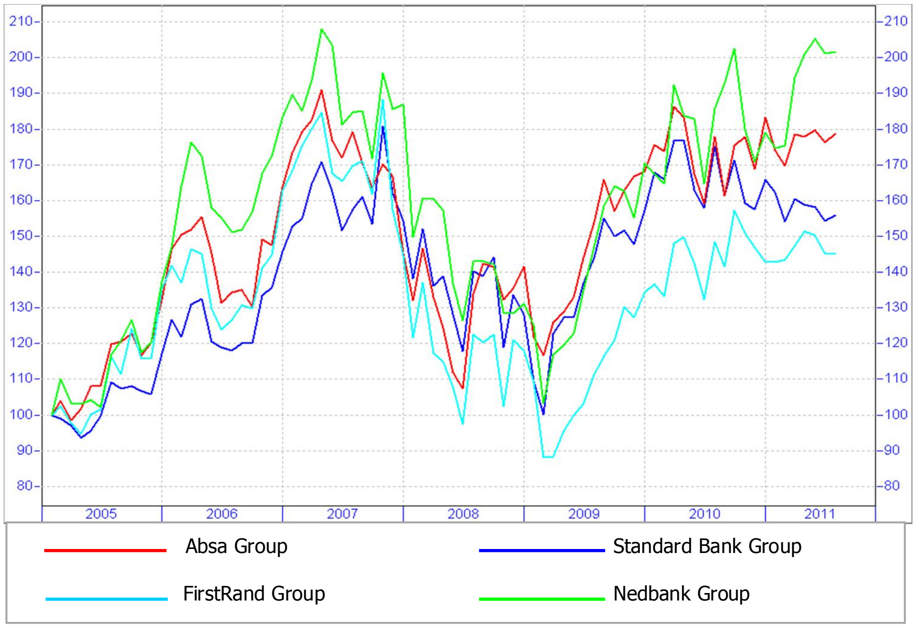
Country of incorporation	Name	Comment
Hong Kong	Absa Bank (Asia) Limited	Ceased operations from 1 January 2006
England	Absa Bank London	Still operational as at 31 December 2010
Absa Bank Singapore	Absa Bank	Ceased operations from 1 January 2006
Germany	Bankhaus Wölbern & Co	Sold during the 2006 financial year
Germany	Hesse Newman & Co	Sold during the 2006 financial year
Isle of Man	Conbros Limited	Wound down in 2007
Isle of Man	Absa Manx Insurance Company Limited	Still operational as at 31 December 2010
United Kingdom	Absa Syndicate Investments Holdings Limited	Sold off to a third party
United Kingdom	Absa Syndicate Investments Limited	Sold off to a third party

Source: Absa Group annual reports – 2005, 2006, 2007, 2008, 2009 and 2010 accessed from http://www.absa.co.za

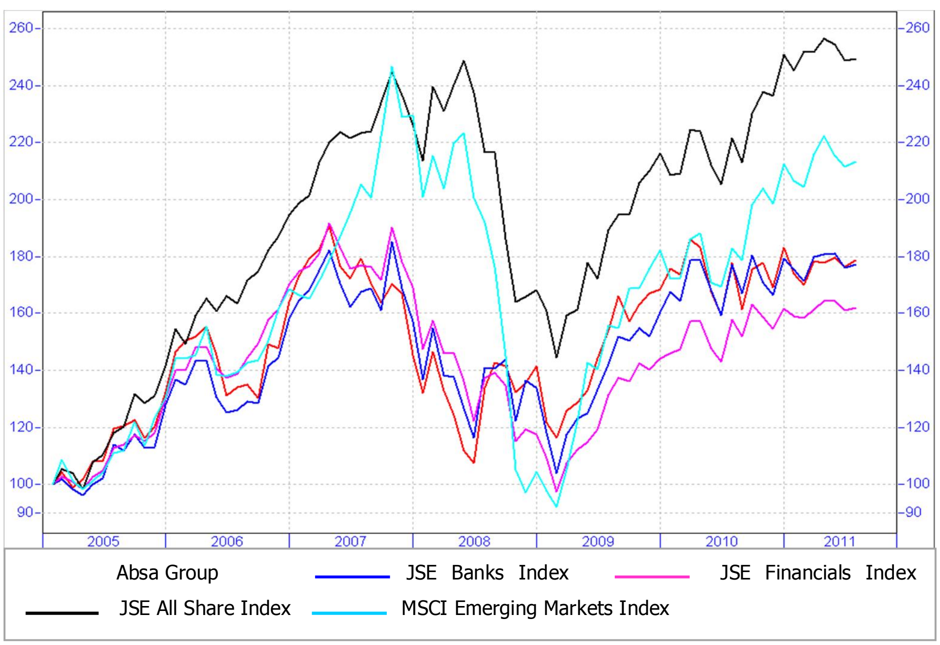
APPENDIX F

Share Performances

I. Big four banks



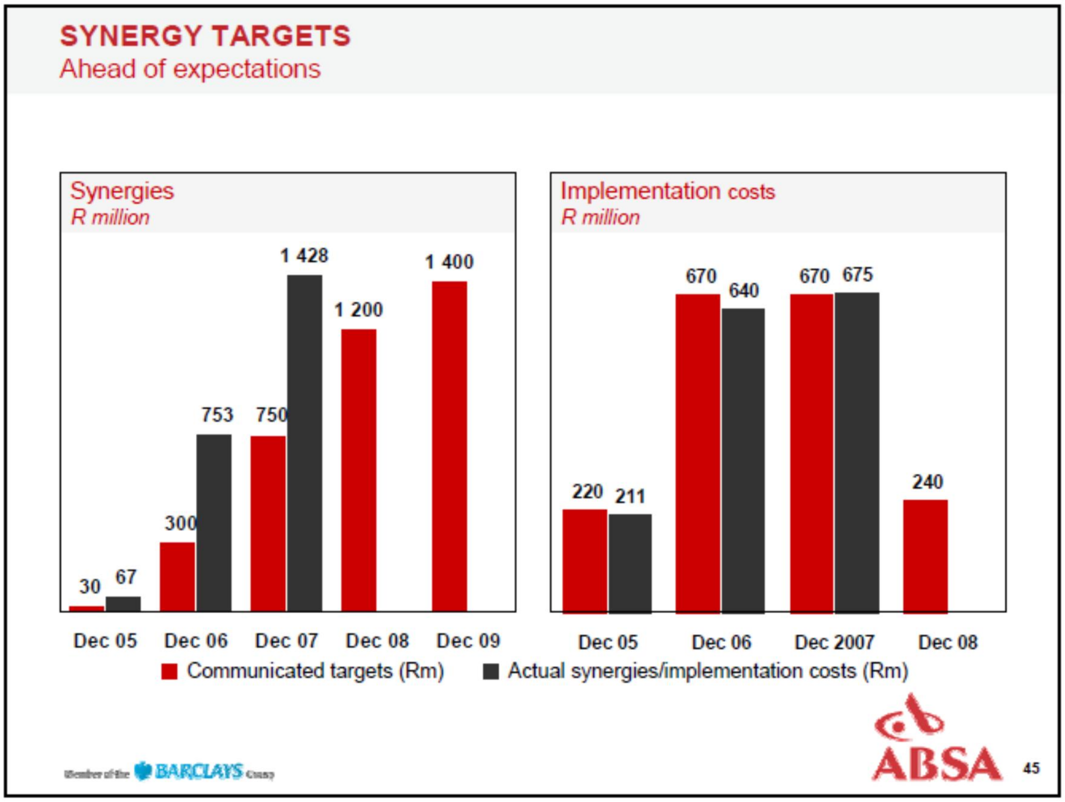
II. Absa versus Indices



Share information source: I-Net Bridge

APPENDIX G

Integration Synergistic Targets

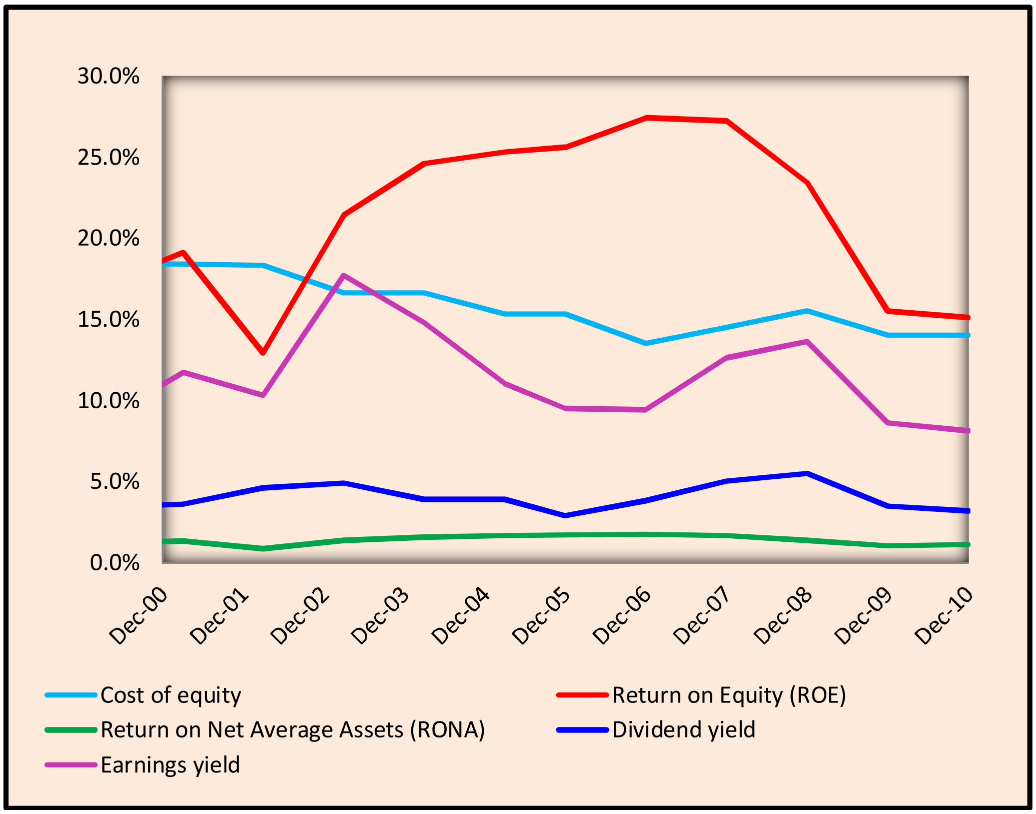


Source: Extract from Absa Group Annual Results presentation for the 2007 financial year

APPENDIX H

Absa Financial Performance

	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Cost of equity	18.4%	18.4%	18.3%	16.6%	16.6%	15.3%	15.3%	13.5%	14.5%	15.5%	14.0%	14.0%
Return on Equity (ROE)	17.1%	19.1%	12.9%	21.4%	24.6%	25.3%	25.6%	27.4%	27.2%	23.4%	15.5%	15.1%
Return on Net Average Assets (RONA)	1.18%	1.32%	0.86%	1.35%	1.55%	1.65%	1.72%	1.74%	1.68%	1.38%	1.02%	1.12%
Dividend yield	3.40%	3.60%	4.60%	4.90%	3.90%	3.90%	2.90%	3.80%	5.00%	5.50%	3.50%	3.20%
Earnings yield	8.80%	11.70%	10.30%	17.70%	14.80%	11.00%	9.50%	9.40%	12.60%	13.60%	8.60%	8.10%

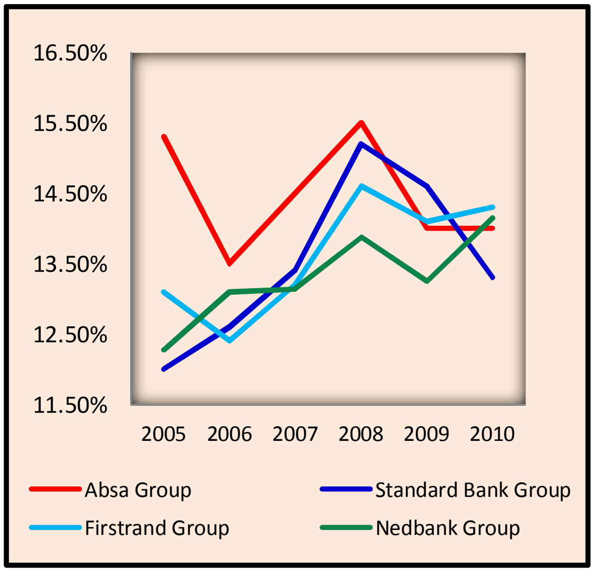


Sources: Absa Group annual reports accessed from http://www.absa.co.za. The annual reports on this website date back to 2006. The group's annual reports for 2001, 2002, 2003, 2004 and 2005 were obtained from Absa Investor Relations. The reports were given in both compact disks (CDs) and hard copy formats.

APPENDIX I

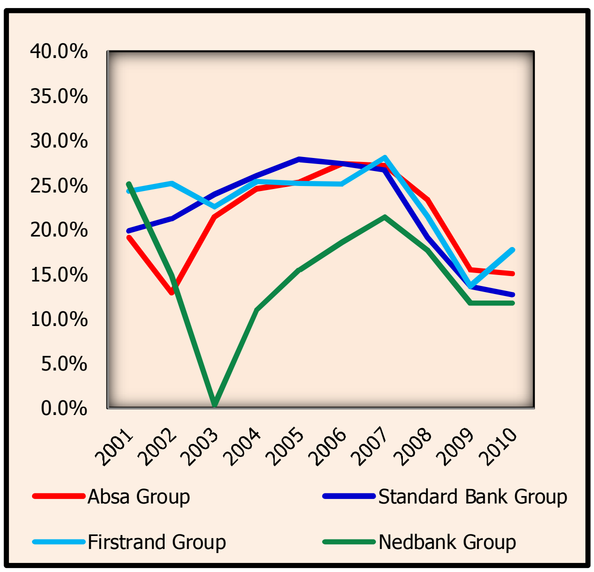
Financial Performance of the Big Four Banks

1. Cost of Equity



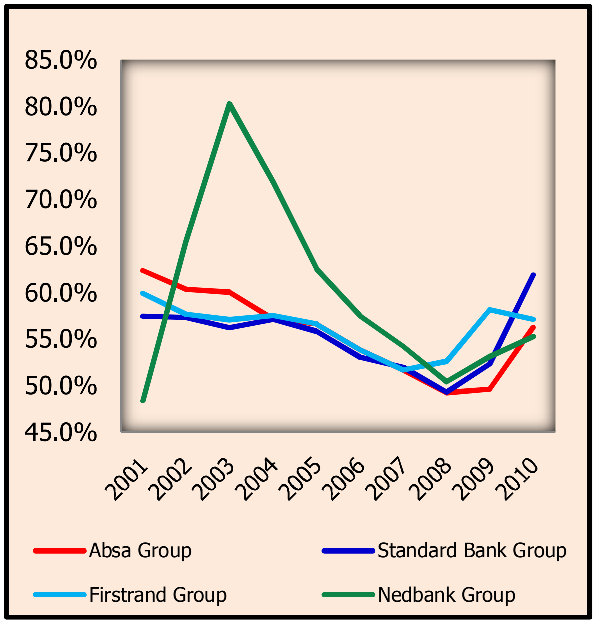
	2005	2006	2007
Absa Group	15.30%	13.50%	14.50%
Standard Bank Group	12.00%	12.60%	13.40%
Firstrand Group	13.10%	12.40%	13.20%
Nedbank Group	12.28%	13.10%	13.14%
	2008	**2009**	**2010**
Absa Group	15.50%	14.00%	14.00%
Standard Bank Group	15.20%	14.60%	13.30%
Firstrand Group	14.60%	14.10%	14.30%
Nedbank Group	13.87%	13.25%	14.15%

2. Return on Equity



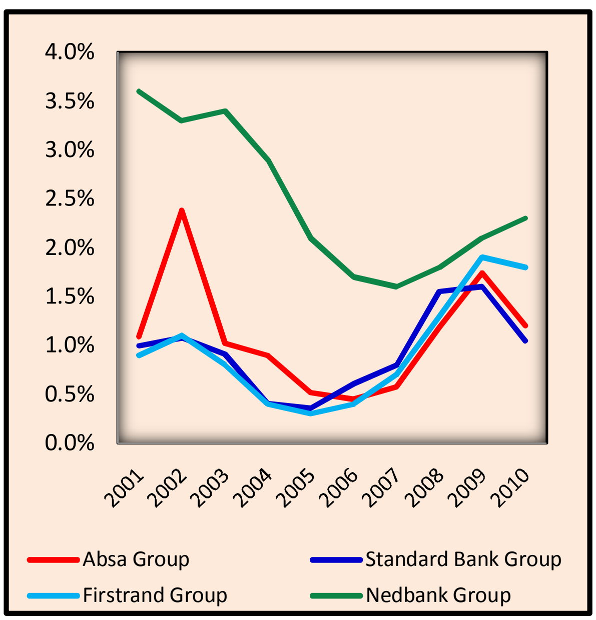
	2001	2002	2003	2004	2005
Absa Group	19.1%	12.9%	21.4%	24.6%	25.3%
Standard Bank Group	19.9%	21.2%	24.0%	26.1%	27.9%
Firstrand Group	24.3%	25.2%	22.6%	25.4%	25.2%
Nedbank Group	25.1%	14.9%	0.4%	11.0%	15.5%
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	27.4%	27.2%	23.4%	15.5%	15.1%
Standard Bank Group	27.4%	26.7%	19.1%	13.7%	12.7%
Firstrand Group	25.1%	28.1%	21.5%	13.7%	17.8%
Nedbank Group	18.6%	21.4%	17.7%	11.8%	11.8%

3. Cost to Income Ratio



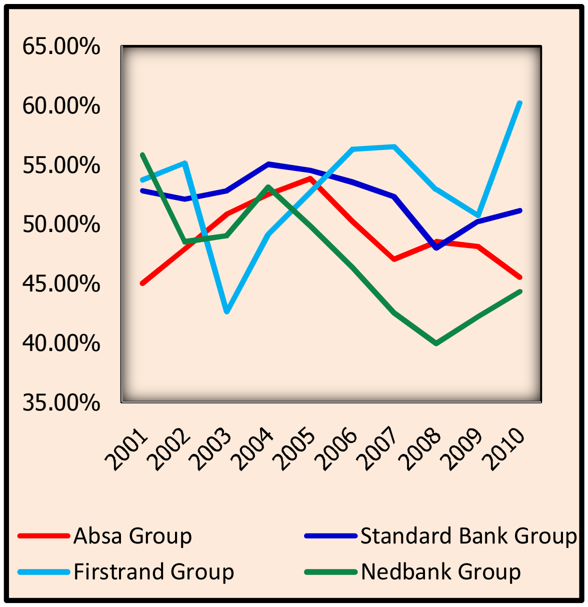
	2001	2002	2003	2004	2005
Absa Group	62.3%	60.3%	60.0%	57.1%	56.6%
Standard Bank Group	57.4%	57.3%	56.2%	57.1%	55.8%
Firstrand Group	59.9%	57.6%	57.0%	57.5%	56.6%
Nedbank Group	48.4%	65.4%	80.2%	71.8%	62.5%
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	53.8%	51.7%	49.2%	49.6%	56.2%
Standard Bank Group	53.0%	51.9%	49.3%	52.3%	61.8%
Firstrand Group	53.8%	51.7%	52.6%	58.1%	57.1%
Nedbank Group	57.5%	54.2%	50.4%	53.1%	55.2%

4. Impairments



	2001	2002	2003	2004	2005
Absa Group	1.09%	2.38%	1.02%	0.90%	0.52%
Standard Bank Group	1.0%	1.1%	0.9%	0.4%	0.4%
Firstrand Group	0.9%	1.1%	0.8%	0.4%	0.3%
Nedbank Group	3.6%	3.3%	3.4%	2.9%	2.1%
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	0.45%	0.58%	1.19%	1.74%	1.20%
Standard Bank Group	0.6%	0.8%	1.6%	1.6%	1.1%
Firstrand Group	0.4%	0.7%	1.3%	1.9%	1.8%
Nedbank Group	1.7%	1.6%	1.8%	2.1%	2.3%

5. Non Interest Income as a % of Total Income



	2001	2002	2003	2004	2005
Absa Group	45.00%	47.90%	50.80%	52.50%	53.80%
Standard Bank Group	52.8%	52.1%	52.8%	55.0%	54.5%
Firstrand Group	53.7%	55.1%	42.6%	49.1%	52.7%
Nedbank Group	55.8%	48.5%	49.0%	53.1%	49.8%
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	50.20%	47.00%	48.50%	48.10%	45.50%
Standard Bank Group	53.5%	52.3%	48.0%	50.2%	51.1%
Firstrand Group	56.3%	56.5%	52.9%	50.7%	60.2%
Nedbank Group	46.3%	42.5%	39.9%	42.2%	44.3%

Sources: The information in this appendix was extracted from the annual reports and year end reviews of the four banking groups accessed from the following sites;
Absa Group - http://www.absa.co.za/Absacoza/About-Absa/Financial-Overview/Annual-Reports,
Standard Bank Group - http://www.standardbank.co.za/site/investor/fina_repo_index01.html,
FirstRand Group - http://www.firstrand.co.za/88/firstrand-limited-annual-report-archive/, and
Nedbank Group - http://www.nedbankgroup.co.za/financialAnnualResults.asp.

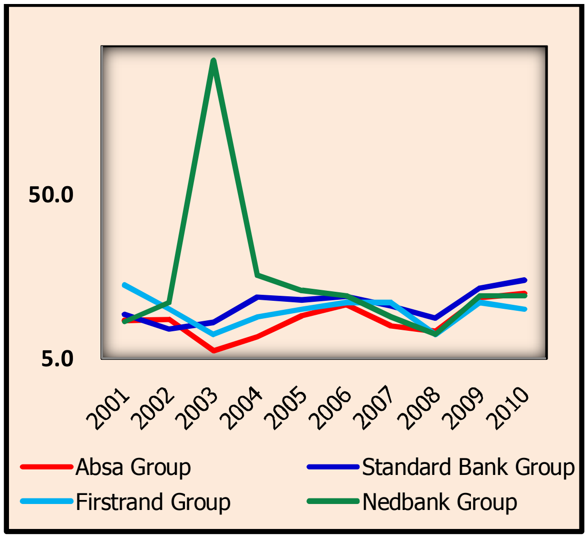
Absa Annual reports on its website date back to 2006. The group's annual reports for 2001, 2002, 2003, 2004 and 2005 were obtained from Absa Investor Relations. The reports were given in both compact disk (CD) and hard copy versions.

The financial year for FirstRand ends on 30 June. The other three banking groups' year end is 31 December. There is a six months comparison lag between FirstRand and the other banking groups.

APPENDIX J

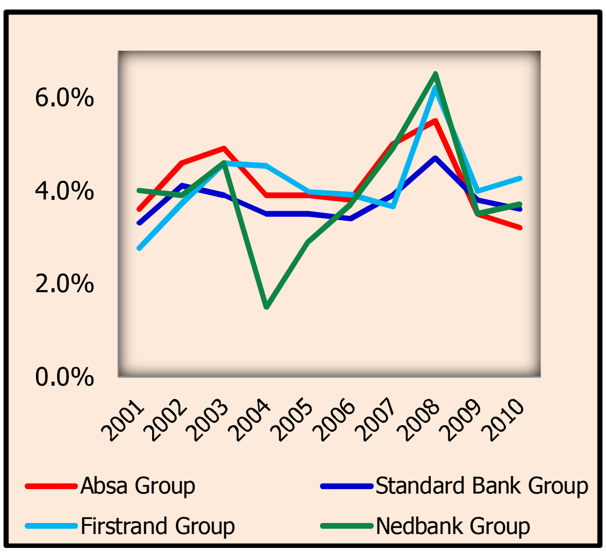
Share Return Analysis of the Four Big Banks

1. Price Earnings Ratio



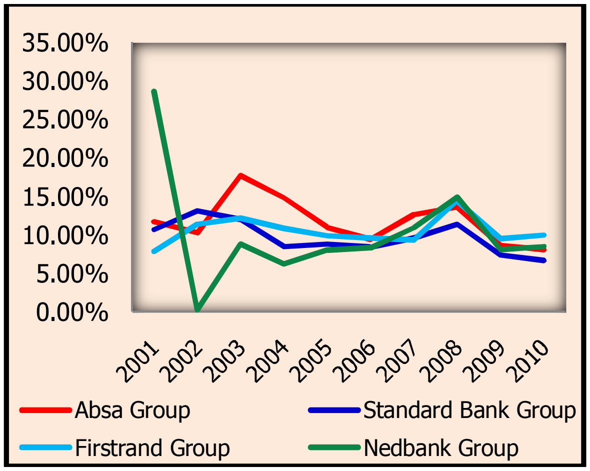
	2001	2002	2003	2004	2005
Absa Group	8.5	8.7	5.6	6.8	9.1
Standard Bank Group	9.3	7.6	8.3	11.8	11.4
Firstrand Group	14.0	10.0	7.0	9.0	10.0
Nedbank Group	8.4	11.0	326.0	16.0	13.0
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	10.6	7.9	7.3	11.7	12.5
Standard Bank Group	11.9	10.4	8.8	13.5	15.0
Firstrand Group	11.0	11.0	7.0	11.0	10.0
Nedbank Group	12.0	9.0	7.0	12.0	12.0

2. Dividend Yield



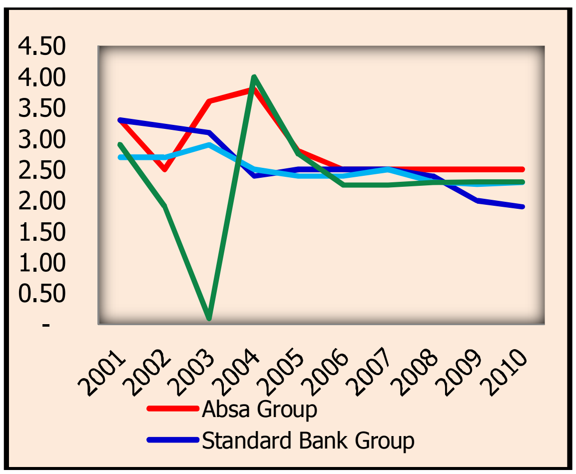
	2001	2002	2003	2004	2005
Absa Group	3.60%	4.60%	4.90%	3.90%	3.90%
Standard Bank Group	3.30%	4.10%	3.90%	3.50%	3.50%
Firstrand Group*	2.76%	3.73%	4.58%	4.52%	3.97%
Nedbank Group	4.00%	3.90%	4.60%	1.50%	2.90%
	2006	**2007**	**2008**	**2009**	**2010**
Absa Group	3.80%	5.00%	5.50%	3.50%	3.20%
Standard Bank Group	3.40%	3.90%	4.70%	3.80%	3.60%
Firstrand Group*	3.91%	3.65%	6.20%	3.98%	4.26%
Nedbank Group	3.70%	4.90%	6.50%	3.50%	3.70%

3. Earnings Yield



	2001	2002	2003	2004	2005
Absa Group	11.70%	10.30%	17.70%	14.80%	11.00%
Standard Bank Group	10.70%	13.10%	12.00%	8.50%	8.80%
Firstrand Group**	7.86%	11.36%	12.11%	10.82%	9.88%
Nedbank Group	28.60%	0.30%	8.80%	6.20%	8.00%
	2006	2007	2008	2009	2010
Absa Group	9.40%	12.60%	13.60%	8.60%	8.10%
Standard Bank Group	8.40%	9.60%	11.40%	7.40%	6.70%
Firstrand Group**	9.59%	9.30%	14.40%	9.48%	9.97%
Nedbank Group	8.30%	10.90%	14.90%	8.10%	8.50%

4. Dividend Cover



	2001	2002	2003	2004	2005
Absa Group	3.30	2.50	3.60	3.80	2.80
Standard Bank Group	3.30	3.20	3.10	2.40	2.50
Firstrand Group	2.70	2.70	2.90	2.50	2.40
Nedbank Group	2.90	1.90	0.10	4.00	2.75
	2006	2007	2008	2009	2010
Absa Group	2.50	2.50	2.50	2.50	2.50
Standard Bank Group	2.50	2.50	2.40	2.00	1.90
Firstrand Group	2.40	2.50	2.30	2.26	2.29
Nedbank Group	2.25	2.25	2.29	2.30	2.30

Sources: nformation was extracted from the annual reports and year end reviews of the four banking groups accessed from the following sites;

Absa Group - http://www.absa.co.za/Absacoza/About-Absa/Financial-Overview/Annual-Reports,
Standard Bank Group - http://www.standardbank.co.za/site/investor/fina_repo_index01.html,
FirstRand Group - http://www.firstrand.co.za/88/firstrand-limited-annual-report-archive/, and
Nedbank Group - http://www.nedbankgroup.co.za/financialAnnualResults.asp.
Absa Annual reports on its website date back to 2006. The group's annual reports for 2001, 2002, 2003, 2004 and 2005 were obtained from Absa Investor Relations. The reports were given in both compact disk (CD) and hard copy versions.

* FirstRand did not disclose its dividend yields and its earnings yields in its 2010 ten year review. The dividend yield percentage was calculated using the dividend paid per share each year as a percentage of the closing price. The earnings yield percentage was calculated using the headlines earnings per share as a percentage of the closing share price. The closing share prices were obtained from I-Net Bridge.

The financial year for FirstRand ends on 30 June. The other three banking groups' year end is December 31. There is a six months comparison lag between FirstRand and the other banking groups.

APPENDIX K

Shareholding Effect of Phase II on Barclays

Actaul acquired	56.60%			
Proposed purchase	60%			
maximum allowed	73.99%			
Country	**Barclays Africa Shareholding 2005**	**Barclays Effective holding for 56.60%**	**Barclays Effective holding for 60%**	**Barclays Effective holding for 73.99%**
Botswana	74.86%	42.37%	44.92%	55.39%
Ghana	100.00%	56.60%	60.00%	73.99%
Kenya	68.50%	38.77%	41.10%	50.68%
Mauritius	100.00%	56.60%	60.00%	73.99%
Seychelles	99.47%	56.30%	59.68%	73.60%
Tanzania	100.00%	56.60%	60.00%	73.99%
Uganda	100.00%	56.60%	60.00%	73.99%
Zambia	100.00%	56.60%	60.00%	73.99%
Zimbabwe	64.72%	36.63%	38.83%	47.89%

Sources:

Barclays Africa shareholding details obtained from Absa and Barclays Circular to Absa Shareholders issued on 20 May 2005 accessed from http://www.absa.co.za

56.6% was Barclays' shareholding as at 31 December 2005 as per Absa Group's Shareholder Report for nine months ended 31 December 2005.

60% was what Barclays intended to purchase as per Absa and Barclays Circular to Absa Shareholders issued on 20 May 2005 accessed from http://www.absa.co.za

73.99% was the maximum shareholding grated to Barclays. As per Media Statement issued by the National Treasury on 8^{th} May 2005, the then South African Minister of Finance granted regulatory approval to Barclays to acquire more than 49 % but less than 74% of Absa shareholding.