Factors affecting the success of broad-based black economic empowerment mergers and acquisitions

A research report submitted

by

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Abstract

Mergers and acquisitions (M&As) are an ubiquitous feature of modern corporate landscape. Most are entered into for various synergistic (voluntary) reasons whilst some, such as broad-based black economic empowerment (BBBEE) M&As, are driven largely by legislative requirements. Research has shown that the factors that lead to the success or failure of voluntary M&As are many and complex.

Whilst there is a plethora of literature regarding the success factors for voluntary M&As, there is, however, a paucity of academic literature on the qualitative factors that lead to the success or failure of BBBEE M&As, despite quantitative studies showing the benefits of BBBEE M&As. Because of the significance of BBBEE to the economic development of the country, policy makers, academics and business people need to fully understand such factors.

Given the dearth of academic literature on the subject, a qualitative, exploratory study conducted by way of face to face, expert, semi-structured interviews, was undertaken to answer the research problem.

The study found that whilst BBBEE M&As are similar, in some respects, to voluntary M&As, BBBEE M&As require different or additional success factors to those applicable to voluntary M&As. Some of these are: funding structure, transaction rationale, expectations' alignment, clear deliverables, active governance, operational involvement, relationship management, transformation and social investment.

Key words: broad-based black economic empowerment; BBBEE; black economic empowerment; BEE; mergers and acquisitions.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Rapulane Mogotoane 7 November 2012

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A project of this magnitude is always a result of collaboration with a range of people; this research report is no exception. A few of them require special mention:

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Last but certainly not least, I would like to thank all my colleagues in the 2011/2012 MBA evening class with whom I conferred, discussed and shared various aspects of this research.

Le ka moso!

Dedication

To my daughter, Tiisego, and my son, Rorisang. For all the time I was never there for you my angels, sorry. That you were there, though, gave me all the strength.

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1.1. Research title

Factors affecting the success of broad-based black economic empowerment mergers and acquisitions.

1.2. Introduction

Global business expansion and development through mergers, acquisitions and strategic alliances is big business (Ragozzino & Reuer, 2007; Trompenaars & Asser, 2011). According to Brusco, Lopomo, and Robinson (2007) mergers and acquisitions are a ubiquitous feature of modern corporate landscape. A report by Ernst & Young ("Mergers, acquisitions and capital raising in mining and metals," 2011) indicates that, whilst the global volumes of merger and acquisition (M&A) transactions in the mining and metals sector decreased by ten percent from 1123 in 2010 to 1,008 in 2011, their value increased by 43 percent from USD114 billion in 2010 to USD162 billion in 2011.

In South Africa, general corporate finance and M&A activity is on the rise again ("Dealmakers," 2012). After a peak in 2007, in terms of which the volume of mergers and acquisitions reached 666 and R497 billion in value, the volume and value of M&A transactions declined in 2008, 2009 and 2010 following the global economic crisis and subsequent recession of 2008/2009 ("Dealmakers," 2012). That report indicates a substantial increase in both the volume and value of M&A activity in 2011. The volume of M&A transactions increased from 410 in 2010 to 467 in 2011 whilst the value increased from R283 billion in 2010 to R585 billion in 2011 ("Dealmakers," 2012).

With regard to black economic empowerment mergers and acquisitions, both the volume and value of such transactions has been on the decline since 2007 ("Dealmakers," 2012). From a peak in 2007 of 89 black economic empowerment mergers and acquisitions valued at R83 billion, the value of black economic empowerment mergers and acquisitions declined to R24 billion in 2011, a decrease of 13 percent on the 2010 value whilst the volume has remained flat at 24, as compared to the 2010 volumes ("Dealmakers," 2012).

It would seem, from the reports referred to above, that the global and local M&A activity is on the rise again ("Dealmakers," 2012; "Mergers, acquisitions and capital rising in mining and metals," 2011). However, the value of black economic empowerment mergers and acquisitions has been on the decline for the past five years even though, the volumes have remained flat in the past two years ("Dealmakers," 2012).

1.3. Overview of broad-based black economic empowerment

The purpose of this section is to provide contextual understanding to the research problem, the purpose of this study, the research scope, motivation, research questions and design.

Broad-based Black Economic Empowerment (BBBEE) has a long history (Chabane, Goldstein, & Roberts, 2006; Kruger, 2011). It is not within the scope of this study comprehensively to set out the history and development of BBBEE in South Africa. For a more comprehensive review of the history and development of BBBEE, the reader is referred to literary works by Chabane *et al*. (2006); Ponte, Roberts, and van Sittert (2007) and Cargill (2010). It suffices, for the purposes of this report, to note that what is today commonly referred to as BBBEE started off simply as the programme of black economic empowerment (BEE) (Cargill, 2010). Hence, it is often stated by authors and commentators that BBBEE has gone through two phases (Cargill, 2010; Chabane *et al*., 2006; Patel & Graham, 2012; Ponte *et al*., 2007; Tangri & Southall, 2008). The first phase started in 1993 as BEE and lasted until about 2003 (Cargill, 2010). The second phase came into being with the promulgation of the BBBEE strategy by the Department of Trade and Industry, South Africa, in 2003 (Kruger, 2011; Patel & Graham, 2012; Ponte *et al*., 2007).

In 2003, the South African Government enacted the Broad-based Black Economic Empowerment Act, No.53 of 2003 (BBBEE Act). In terms of section 2 of the BBBEE Act, its objectives are, among others, to facilitate BBBEE by promoting economic transformation in order to enable meaningful participation of black people in the economy; achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises; increase the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training (Esser & Dekker, 2008; Hamann, Khagram, & Rohan, 2008; Kruger, 2011).

In order to promote the purposes of the BBBEE Act, the Minister of Trade and Industry (Minister) is given the power to issue Codes of Good Practice on BBBEE (Codes). In June 2007, the Minister issued the first generic Codes on BBBEE. These Codes contain the details of BBBEE measures and provide the framework for measuring progress made on the implementation and execution of BBBEE (Esser & Dekker, 2008). Compliance with the BBBEE Act is measured through the generic scorecard which consists of seven elements which are: ownership, management control,

employment equity, skills development, preferential procurement, enterprise development and socio-economic development. Each of these elements is allocated points out of 100 (Cargill, 2010; Hamann *et al*., 2008; Juggernath, Rampersad, & Reddy, 2011; Patel & Graham, 2012; Tangri & Southall, 2008). At the time of the finalisation of this report, the Minister had issued amendments to the Codes for public comment. Among others, the amendments propose the reduction of the generic scorecard from seven to five elements.

In terms of section 10 of the BBBEE Act, the Codes are binding on the State and any public entity when determining qualification criteria for the issuing of licences, concessions or other authorisations required by law; developing and implementing a preferential procurement policy and, developing criteria for entering into partnerships with the private sector. Except for those industries or sectors for which compliance is a legal requirement, such as the mining, petroleum, gas and energy industries, the Codes are not a legal obligation on the private sector (Juggernath *et al*., 2011). But, there is a specific obligation on the State and all organs and entities of the State to apply the Codes and hence, to oblige all companies that do business with them to implement the Codes (Cargill, 2010; Juggernath *et al*., 2011).

At the same time, private enterprises that conduct business with the State or any organ of the State or State entity or which wish to enter into a business transaction with any enterprise that does business with the State or any organ of the State or any State entity, are obliged to comply with the requirements of the Codes (Esser & Dekker, 2008; Kruger, 2011). This illustrates that while BBBEE is not legally binding on the private sector, it can be economically binding (Esser & Dekker, 2008; Ferreira & de Villiers, 2011; Kruger, 2011). Similarly, any enterprise that requires a licence, permit, concession or other authorisation to conduct its business, such as a mining licence, broadcasting licence, or licence to conduct a mobile telephone service, must comply with the requirements of the Codes (Cargill, 2010; Juggernath *et al*., 2011).

The ultimate effect of the BBBEE Act and the Codes is that companies are given a rating indicating their level of compliance and implementation of the Codes (Esser & Dekker, 2008; Fauconnier & Mathur-Helm, 2008; Juggernath *et al*., 2011). Among others, the BBBEE Act, read together with the Codes, stipulate that, except for certain exempt micro enterprises and qualifying small enterprises, all private enterprises must transfer 20 percent of their issued ordinary shareholding to black people as defined (Cargill, 2010; Esser & Dekker, 2008; Kruger, 2011).

1.4. Research problem

The reasons for businesses to embark upon mergers and acquisitions are many and complex and can vary from deal to deal (Cox, 2006; Gaughan, 2011; Horwitz *et al*., 2002; Tanure, Cancado, Duarte, & de Muylder, 2009). Kode, Ford, and Sutherland (2003) categorise these reasons as synergistic, non-synergistic and/or strategic while Tanure *et al*. (2009) cluster such reasons into two categories: traditional (being those M&A transactions done with the objective of consolidating and expanding a company's market share) and transformational (referring to those M&A transactions done with the objective of developing a new portfolio or a new business model).

According to Kode *et al*. (2003) "non-synergistic combinations can be described as non-core diversification transactions [whilst] strategic combinations are done for reasons such as eliminating competition, securing a supply or distribution line or preventing a competitor from acquiring the target" (p. 2). Some of the synergistic reasons identified by Kode *et al*. from their meta-analysis of the mergers and acquisitions literature review are: industry specific requirements; globalisation leading to scale requirements; speed and cost considerations of growth; product and service range expansion; risk reduction and diversification; and leverage of core competencies or technology changes.

In addition to the above synergistic reasons, some M&A transactions are entered into as a result of legislative and/or regulatory requirements; these are the non-synergistic and/or strategic M&A transactions. For ease of reference, these types of mergers and acquisitions are referred to in this report as "involuntary" M&A transactions. For example, in South Africa, previously advantaged companies are required, by law, to transfer a portion of their equity ownership to the previously disadvantaged communities and individuals. This is part of a necessary government intervention to address the previous systematic exclusion of the majority of South Africans from full participation in the economy (Chabane *et al*., 2006; Esser & Dekker, 2008; Fauconnier & Mathur-Helm, 2008; Ponte *et al*., 2007; "*South Africa's Economic Transformation: A strategy for Broad-based Black Economic Empowerment*," 2003).

For example, in a study conducted by Sartorius and Botha (2008) to assess the results of BBBEE equity transfers, the authors noted various reasons given by the respondent companies in the study for concluding BBBEE M&A transactions. Their study found that over 35 percent of the respondents indicated that they concluded BBBEE M&A transactions because of the need to comply with the law (Sartorius & Botha, 2008)

indicating that, for those companies, the conclusion of BBBEE M&A transactions was not a voluntary act but rather, done for non-synergistic and/or strategic reasons.

Notwithstanding the fact that BBBEE M&A deals are, in some cases, involuntary, Ferreira and de Villiers (2011) state that various studies have demonstrated that the market reacts positively to the announcement of BBBEE deals and that BBBEE compliance results in improved economic conditions for the company concerned. A review of those studies mentioned by Ferreira and de Villiers (2011) is briefly referred to herein and more comprehensively in the literature review section of this report.

Jackson, Alessandri, and Black (2005) found that on average, the announcement of a BBBEE transaction resulted in significant positive cumulative abnormal returns (CAR) of 1.3 percent for the 3-day event window and a 1.8 percent CAR for the 5-day event window, demonstrating that "announcements of BBBEE deals are associated with positive abnormal returns" (p. 19).

That finding was confirmed by a study conducted by Ward and Muller (2008). In that study, the authors employed event study methodology to examine the long-term impact on the share prices of 60 listed companies after the announcements of black economic empowerment deals which impact ownership. Their research found that positive (although insignificant) returns are made in the three days preceding the announcement, but these quickly dissipate. However, over the next 240 trading days, a positive cumulative average abnormal return of around 15 percent was evident. A similar study conducted earlier by Marais and Coetzee (2006) and later studies by Sartorius and Botha (2008); Wolmarans and Sartorius (2009); Strydom, Christison, and Matias (2009); Strydom, Christison, and Matias (2011) and Ferreira and de Villiers (2011) have all confirmed that the conclusion of BBBEE mergers and acquisitions results in positive economic returns for the companies concerned.

Over the last five decades, various studies, locally and globally, have been undertaken and numerous models and frameworks developed to ascertain the factors that apparently lead to the success or failure of voluntary M&A transactions (Appelbaum, Gandell, Yortis, Proper, & Jobin, 2000; Clayton, 2010; Eccles, Lanes, & Wilson, 2001; Gaughan, 2011; Gendron, 2004; Horwitz *et al*., 2002; Marks & Mirvis, 2011; Papadakis, 2005; Trompenaars & Asser, 2011). Whilst welcoming the contribution made by these studies to the development of a broad knowledge base about mergers and acquisitions, Miczka and Grobler (2010) are, however, concerned that due to a variety of reasons, including, among others, the background of the researchers, these studies have sometimes resulted in contradicting findings about what are the critical success

factors for mergers and acquisitions. This view was also expressed by Stahl and Voight (2008) who had, in their earlier study, noted that notwithstanding the growing body of research on the variables that affect the performance of M&As, key factors for success and the reasons why M&As fail, remain poorly understood. Weber, Tarba, and Reichel (2011) agree and attribute this failure to what they regard as atheoretical and fragmented research across various disciplines without any attempt by authors to link their research to any comprehensive theory.

It is, perhaps, then, not surprising that despite the increase in research that has gone into this field, many merger and acquisition transactions fail to achieve their pre-deal success forecasts and projections (Appelbaum, Lefrancois, Tonna, & Shapiro, 2007; Clayton, 2010; Coffey, Garrow, & Holberche, 2002; Kode *et al*., 2003). According to Clayton (2010) conservative estimates place M&A failure at approximately 50 percent or higher for nearly four decades. This is confirmed by a recent survey by KPMG which estimates that more than half of the mergers and acquisitions destroy shareholder value ("A time for transformational leadership," 2011). It is no wonder that Weber, Belkin, and Tarba (2011) remarked that "one of the enduring paradoxes in management literature has been the propensity of corporations and executives to engage in M&As despite consistent evidence that post merger performance of acquiring firms is disappointing" (p. 107).

1.5. Summary: Intended study contribution

Whilst there is a plethora of literature on what factors are necessary to ensure the success of "voluntary" M&A transactions, there is, however, a paucity of academic literature on the qualitative factors that lead to the success or failure of BBBEE mergers and acquisitions (Fauconnier & Mathur-Helm, 2008; Ferreira & de Villiers, 2011; Patel & Graham, 2012). In this regard, Fauconnier and Mathur-Helm (2008) stated that "BEE dealings which meet the demanding expectations of government and society within the realities of business are not easy. They are relatively low in success rate..." (p. 1). They went on to state that "although anecdotal evidence suggests some common problems that could contribute to the failure of many such deals, no empirical study could be found to validate these claims and conclude exact reasons" (p. 1). This view is supported by Kruger (2011) who stated that "[t]he academic literature on the topic of transformation in South Africa is still relatively limited in depth, and has many gaps including B-BBEE dealings, the challenges and the factors necessary for success..." (p. 212).

Whereas previous research has quantitatively shown that the market reacts positively to the announcement of BBBEE mergers and acquisitions (Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Marais & Coetzee, 2006; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009) and that such transactions can result in improved economic conditions for the entity concerned (Sartorius & Botha, 2008), there is little research on what actually makes BBBEE M&A transactions to work (Fauconnier & Mathur-Helm, 2008; Ferreira & de Villiers, 2011; Kruger, 2011; Patel & Graham, 2012).

This study contributes to previous research by, among others, Ferreira and de Villiers (2011); Jackson *et al*. (2005); Marais and Coetzee (2006); Strydom *et al*. (2009); Strydom *et al*. (2011); Ward and Muller (2008); Wolmarans and Sartorius (2009). Those studies quantitatively showed the financial and economic benefits of BBBEE M&As for the companies concerned. It also builds on the study by Sartorius and Botha (2008) which looked at variables that influence a successful BEE equity ownership transaction and, in particular, aimed to "contribute to the development of a framework for structuring and funding equity ownership transactions and selecting a suitable BEE partner" (p. 438).

This study contributes to existing academic literature by providing some answers to the question of what qualitative factors are necessary to ensure the success and minimise the failure of BBBEE M&A transactions, as an example of involuntary and/or non-synergistic and/or strategic M&A transactions. It addresses the gaps identified in the academic literature by Fauconnier and Mathur-Helm (2008); Kruger (2011) and, Patel and Graham (2012) on the subject of what makes BBBEE M&As successful. It also adds to the body of academic knowledge by indicating measures which can be used to assess the success of BBBEE M&A transactions.

1.6. Research scope

The scope of this study is to assess and gain insights into the factors which are critical for the success of BBBEE mergers and acquisitions. It does not seek to review and/or analyse the question of what, in general, makes or constitutes a successful BBBEE transaction as measured through the entire generic scorecard. That is a separate topic altogether, one which it is hoped other researchers will look at in the future.

The reason for this limited scope is to give focus to the study because, as indicated above, BBBEE is a very broad concept (Esser & Dekker, 2008). There are various ways in which BBBEE schemes are structured. Subject only to the requirements of the

BBBEE Act and the Codes, the kinds of schemes companies use are limited only by the ingenuity of the designers of such schemes. Consequently, this research seeks only to establish, by way of an exploratory study, conducted through semi-structured expert interviews, which factors are necessary to ensure the success of a BBBEE merger or acquisition transaction, whatever scheme or structure is utilised. Further, this study examines how the success of such a BBBEE M&A transaction, is measured.

1.7. Research motivation

The motivation for this research is both personal and academic. At a personal level, the researcher has been actively engaged in this field for the last 10 years and has, in that period, noted some successful and unsuccessful BBBEE M&A deals. It is hoped that this research will shed some light into what makes BBBEE mergers and acquisitions to succeed or to fail. At an academic level, it is hoped that this research will add to the body of knowledge on BBBEE and assists the government and other policy makers, academics, analysts, investors, corporate finance and structured finance practitioners and company managers to understand the factors that lead to the success of BBBEE mergers and acquisitions. As Fauconnier and Mathur-Helm (2008) and Kruger (2011) indicated, there is a paucity of academic literature on the subject of the challenges and success factors for BBBEE even though the topic is debated extensively in the general media. Ultimately, it is hoped that this research will contribute towards the economic development of the country through the formulation and structuring of appropriate BBBEE merger and acquisition transactions. This study is necessary given the importance of BBBEE in realising the country's full economic potential (Fauconnier & Mathur-Helm, 2008; Kruger, 2011).

2. CHAPTER 2: LITERATURE REVIEW

The aim of the following literature review is to contextualise the research problem and questions set out in this report. It is categorised into two sections: the first section reviews some of the literature on voluntary M&A transactions in general; classification of mergers and acquisitions, why firms engage in them and the critical success factors for voluntary M&A transactions, whilst the second section reviews some of the literature on BBBEE mergers and acquisitions. In particular, the BBBEE literature review looks at the reasons for firms to engage in BBBEE M&As and whether or not BBBEE M&As have any benefits for those firms that engage upon them. The further objective of the BBBEE literature review is to investigate whether or not there are factors identified for the success of such transactions and to assess the extent to which the factors which are commonly identified and accepted as critical for the success of voluntary M&As, are also applicable to BBBEE M&As.

2.1. Review of literature on voluntary mergers and acquisitions

2.1.1. Classification of mergers

From a value chain perspective, mergers can be classified as either horizontal, vertical or conglomerate (Gaughan, 2011, Hoang & Kamolrat, 2007). A horizontal merger occurs when two competitors combine whereas vertical mergers are combinations of firms that have client-supplier or buyer-seller relationships (Gaughan, 2011). Firms engaging in these types of mergers seek to reduce uncertainty and transaction costs by upstream and downstream linkages in the value chain and to benefit from economies of scope (Hoang & Kamolrat, 2007). A conglomerate merger, on the other hand, occurs when the merging firms are not competitors and do not have a buyer-seller relationship (Gaughan, 2011). In addition, mergers can further be classified as friendly or hostile or domestic or cross-border (Hoang & Kamolrat, 2007).

2.1.2. Antecedents: Reasons for mergers and acquisitions

As indicated above, the reasons for businesses to embark upon mergers and acquisitions are many and complex and can vary from deal to deal (Cartwright & Schoenberg 2006; Cox, 2006; Gaughan, 2011; Horwitz *et al*., 2002; Huyghebaert & Luypaert, 2010; Tanure *et al*. 2009). Kode *et al*. (2003) categorised these reasons as synergistic, non-synergistic and/or strategic while Tanure *et al*. (2009) grouped such reasons into two categories: traditional (being those M&A transactions done with the objective of consolidating and expanding a firm's market share) and transformational

(referring to those M&A transactions done with the objective of developing a new portfolio or a new business model).

According to Kode *et al*. (2003) "non-synergistic combinations can be described as non-core diversification transactions [whilst] strategic combinations are done for reasons such as eliminating competition, securing a supply or distribution line or preventing a competitor from acquiring the target" (p. 2). Some of the synergistic reasons identified by Kode *et al*. from their meta-analysis of the mergers and acquisitions literature review are: industry specific requirements; globalisation leading to scale requirements; speed and cost considerations of growth; product and service range expansion; risk reduction and diversification; and leverage of core competencies or technology changes. But, as Haleblian, Devers, McNamara, Carpenter, and Davison (2009) pointed out, "although scholars have identified many acquisitions antecedents, it remains unclear which antecedents are primary, secondary or tertiary triggers or how these factors may jointly operate on acquisition behaviour" (p. 489).

Haleblian *et al*. (2009) conducted a review of 167 articles published in what they defined as leading academic journals, to understand, among others, the antecedents for M&As, internal and external moderators that affect acquisition performance and acquisition outcomes. From this review, they concluded that the antecedents for M&As broadly fall into four categories: value creation, managerial self-interest (value destruction), environmental factors and firm characteristics.

Aspects of the Haleblian *et al*. (2009) findings were confirmed by Lin, Peng, Yang, and Sun (2009). These authors conducted a study building on the resource dependence perspective of a firm (which posits that firms are embedded in relationships and influenced by external environment and therefore, use M&As to enhance their control of the resources needed for survival and prosperity) and showed that in some instances, the drivers for M&As are relational and behavioural, being networks, learning and institutions. According to them, M&As do not occur in isolation from the social context in which the merging firms exist. They contend that the question of what drives M&As cannot be approached only from a financial or economic perspective as, in their view, acquisitions are not a "result of a firm's stand alone calculations of cost or options in response to inefficient market transactions" (p. 1114). It is the researcher's submission that, on closer examination, what Lin *et al*. contend is not significantly different from what Kode *et al*. (2003) aptly described as synergistic, non-synergistic or strategic motives for M&As.

From the above literature review, the various reasons for M&As as identified by different authors can be set out as summarised by the researcher in Table 1 below. As this is a summary of the views of the different authors, some of the reasons they mentioned are the same and thus, it may appear like they have been repeated.

Table 1: Summary of literature review on reasons for M&As

AUTHORS	SYNERGISTIC	NON-SYNERGISTIC	STRATEGIC	OTHER
Kode *et al.* (2003)	Industry specific requirements; Globalisation leading to scale requirements; Speed and cost considerations of growth; Product and services range expansion; Risk reduction and diversification; Leveraging core competencies or technology changes.	Non-core diversification transactions	Eliminating competition; Securing a supply or distribution line; Preventing a competitor from acquiring the target.	
Horwitz *et al.* (2002)	Synergies through economies of scale; Revenue enhancement; Shared cost of product development; Increased market share and shareholder value; improved access to markets and new technologies.		Strategic positioning; Industry wide consolidation; Risk reduction; Acquiring new organisational capabilities.	
Haleblian *et al.* (2009)	Value Creation • Market power • Efficiency • Resource redeployment • Market discipline	Firm Characteristics • Acquisition experience • Firm strategy and position	Environmental Factors • Environmental uncertainty • Regulation • Imitation • Resource dependence • Networks ties	Managerial Self-Interest (Value Destruction) • Compensation • Hubris Target defence tactics
Cartwright and Schoenberg (2006)				Managerial hubris Managerial motives and governance Managerial motives to increase their own utility
Huyghebaert and Luypaert (2010)	Synergies		Market power Industry shocks	Financial market conditions
Gaughan (2011)	Growth Synergy • Revenue enhancing operating synergies • Cost reduction operating synergies Financial synergies Improved research and development	Diversification • Related versus unrelated diversification Managerial hubris	Horizontal and vertical integration Market power Improved management Tax incentives	

2.1.3. Critical success factors for voluntary mergers and acquisitions

Extensive research has been done into the critical success factors for voluntary M&As (Appelbaum *et al*., 2007; Cartwright & Schoenberg, 2006; DiGeorgio, 2003; Eccles *et al*., 2001; Gaughan, 2011; Gendron, 2004; Haleblian *et al*., 2009; Horwitz *et al*., 2002; King, Dalton, Daily, & Covin, 2004; Marks & Mirvis, 2011; Miczka & Grobler, 2010; Papadakis, 2005; Tanure *et al*., 2009; Trompenaars & Asser, 2011). A summary of these factors, as compiled by the researcher, is set out in Table 2, at the end of this section of the literature review. But, despite decades of research, what impacts the financial performance of firms engaging in M&A activity remains largely unexplained (King *et al*., 2004; Stahl & Voigt, 2008).

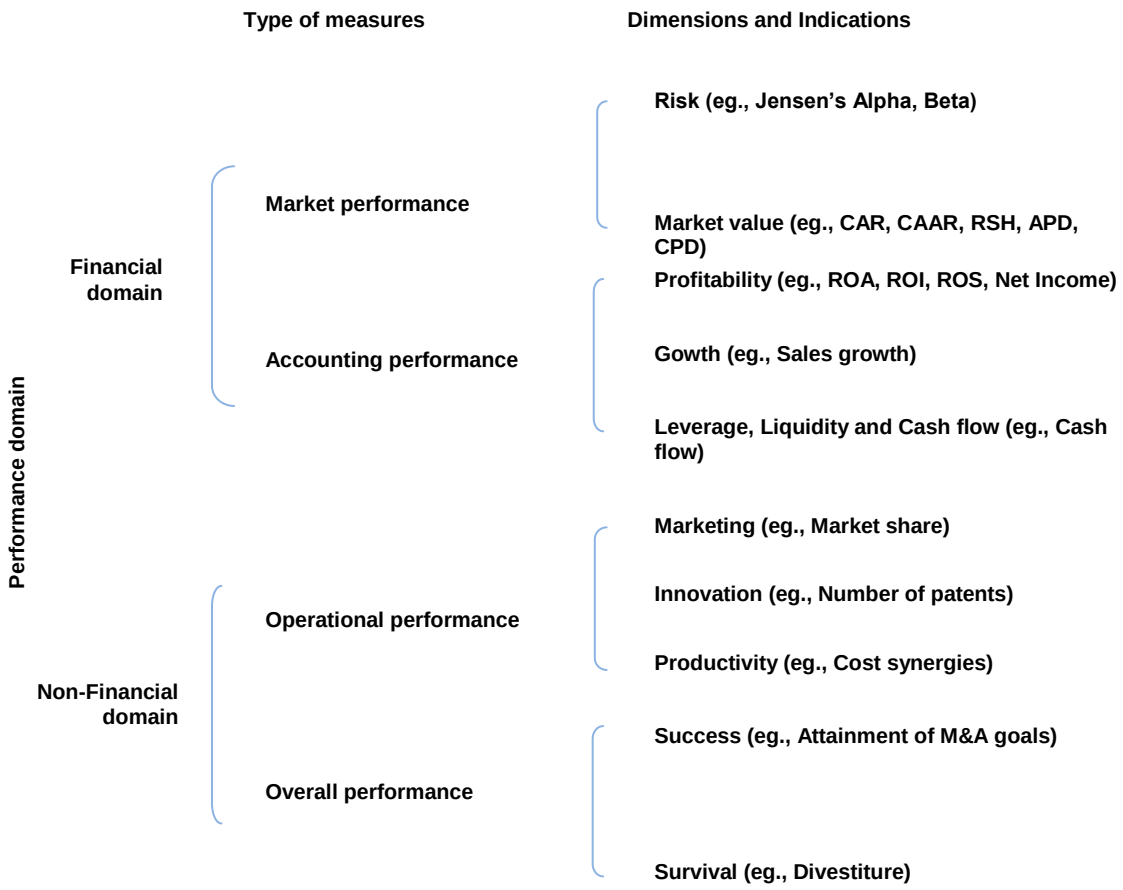
More recently, Micka and Grobler (2010) stated that whilst they welcome the contribution made by these studies to the development of a broad knowledge base about mergers and acquisitions, they were concerned that due to a variety of reasons, including, among others, the background of the researchers, these studies have sometimes resulted in contradicting findings about what are the critical success factors for mergers and acquisitions. In support of this view, other academic authors have also argued that notwithstanding the extensive M&A research, the key factors for success and the reasons why M&As often fail, remain poorly understood (Meglio & Risberg, 2010; Weber, Tarba, *et al*., 2011).

Cartwright and Schoenberg (2006) argued that part of the reason for this lack of understanding or contradictory findings about M&A critical success factors is that M&A research has tended to develop along discipline-based lines. This, they contend, has been "at the cost of developing a holistic understanding of what determines their performance and what consequences they bring" (Cartwright & Schoenberg, 2006, p. 2). A few years earlier, Marks and Mirvis (2001) had offered a more practical reason: According to them, the reason for this lack of clarity is because "the nature of a [merger or acquisition] deal runs counter to the requirements of sound research. For both legal and competitive reasons, merger negotiations are shrouded in secrecy" (p. 80) thus making it difficult to fully understand reasons for their success or failure.

Meglio and Risberg (2010) attributed this contradiction and inconsistency of the research findings to the fact that most M&As scholars use different performance measures embedded in different research methods to determine successful M&A transactions. In their subsequent study on how mergers and acquisitions perform and what explains their performance. Meglio and Risberg (2011) conducted a literature review of 101 journal articles published from 1970-2008 in what they regard as leading

academic journals. Their study found that there is no consistency about what constitutes M&A performance. As set out in Figure 1 below, they found that M&A performance is generally measured in one of two domains (being either financial or non-financial domain) using different performance measures across various dimensions and relying on different indicators (Meglio & Risberg, 2011). As the authors put it, "M&A scholars measure different things in different settings, using broad or narrow definitions, relying on a wide array of indicators each reflecting different time scales and unit of analysis" (Meglio & Risberg, 2011, p. 422).

Figure 1: A classificatory scheme of M&A performance measures



Source: Meglio and Risberg (2011: 422)

Based on their extensive literature review, they correctly concluded, in the researcher's opinion, that "it is not possible to talk about M&A performance as if it were a universal construct because it is sensitive to contextual conditions. In order to understand what M&A performance is, one must take into consideration the scope conditions as well as the conceptualization and operationalisation of the construct. The different performance measures tell different stories about performance for different audiences"

(p. 431). They argued that the problem in understanding the factors that affect the performance of M&As is not in the use of a multiplicity of M&A performance measures but, in trying to compare different measures as if they were measuring the same feature of the organisation.

It is, therefore, important that in trying to understand the myriad of studies on the factors that are apparently responsible for the success or failure of M&As, one must be clear, among others, about how each of those studies defined M&A performance, how was such performance or lack thereof measured and over what period was such performance measured (Meglio & Risberg, 2011).

2.1.4. Phases of a typical merger and acquisition transaction

The research into the critical success factors for voluntary M&As is best understood in terms of the phases of a typical M&A transaction, which are, broadly, planning, implementation and integration (Barkema & Schijven, 2008; Hoang & Kamolrat, 2007; Marks & Mirvis, 2001). Gaughan (2011) referred to these stages as, respectively, pre-merger, during-merger and post-merger stages. According to Hoang and Kamolrat (2007) "planning covers the operational, managerial and legal techniques and optimisation with regards to the following two phases of the deal. The implementation phase covers a range of activities starting from the issuance of confidentiality or non-disclosure agreements, letters of intent and ending with the conclusion of the M&A contract and deal closure. The last phase is concerned with post-deal integration" (p. 11).

Galpin and Herndon (2000) in Hoang and Kamolrat (2007) devised a model that divided the M&A process into five stages as represented in Figure 2 below. These are, formulate, locate, investigate, negotiate and integrate. The first three stages form part of the pre-deal / planning phase whilst the negotiate stage represents part of the during-merger phase and integrate is part of the post-merger phase (Hoang & Kamolrat, 2007). A significant aspect of the Galpin and Herndon model is a specific reference to strategy formulation as part of a merger process (Hoang & Kamolrat). As will be indicated later in this chapter, this is an important stage of a merger process.

Figure 2: Map of merger & acquisition process

* Set business strategy * Set growth strategy * Define acquisition criteria * Begin strategy implementation	* Identify target markets and companies * Select target * Issue letter of intent * Offer letter of confidentiality	* Conduct due-diligence analysis * Summarise findings * Set preliminary integration plan * Decide negotiation parameters	* Set deal terms (Legal, Structural, Financial) * Secure key talent and integration teams * Close deal	* Finalise and execute integration plan – Organisation – Process – People – System
Strategy and Integration Process Development	Pre deal (assessing, planning, forecasting value)		Deal (agreeing on value)	Postdeal (realizing value)

Source: Hoang & Kamolrat (2007:7)

Traditionally, most researchers and practitioners have tended to study and understand the factors that affect the success or otherwise of the merger or acquisition, based on the various stages of the transaction (Appelbaum *et al*., 2000; Schoemaker, 2001). However, DiGeorgio (2002) suggested that companies must take a system's approach (as that term is explained below) to the process of acquiring and integrating mergers and acquisitions - a view also shared by Miczka and Grobler (2010). In this regard, Clayton (2010) proposed that M&A transactions must be approached and managed in the same manner as complex adaptive systems using complexity science theory. A system's approach means that companies must look at a merger or acquisition transaction as a process that requires careful management throughout all its stages (Barkema & Schijven, 2008; Miczka & Grobler, 2010).

Thus, even though for ease of writing and understanding, the following literature review is divided according to the phases of a typical M&A transaction, the entire process should be seen as a continuum. These stages are consecutive, interdependent (Tanure *et al*., 2009), interrelated (Barkema & Schijven, 2008) and must be "concurrently engineered to provide the right input and the right decision at the right time" (Hoang & kamolrat, 2007, p. 12).

2.1.4.1. Planning or pre-merger phase

As indicated in Figure 2 above, the sub-elements of this phase entail, among others, setting of the business or corporate strategy and conducting comprehensive due diligence. This is an important step of the M&A transaction because the success or otherwise of a merger starts right at the beginning of the transaction (Marks & Mirvis,

2001). In this regard, Nguyen and Kleiner (2003) stated that "merger success correlates directly with the level and quality of the planning involved" (p. 447). These authors lamented the fact that too often, companies spent insufficient time analysing and anticipating current and future market trends. They stated that it is common for companies to forego an objective analysis of their strengths, weaknesses, opportunities and threats, thus risking the success of the transaction from the start (Nguyen & Kleiner, 2003).

The planning phase affects all areas of the merger process and it is, therefore, important that it be done properly (Chapman, 2004). As DiGeorgio (2002) stated, it is important that companies must take a system approach to the entire M&A transaction. A system approach means, firstly, that any company considering a possible merger or acquisition must have a good and compelling reason to do so (Tanure *et al*., 2009). In most cases, such reason would be informed by the company's corporate level strategy (Coffey *et al*., 2002; Gaughan, 2011; Ireland, Hoskisson, & Hitt, 2011).

Corporate level strategy specifies actions a firm takes to gain a competitive advantage by selecting and managing a group of different businesses competing in different product markets (Ireland *et al*., 2011). This must be distinguished from a business level strategy which basically entails an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets (Ireland *et al*., 2011).

According to Nguyen and Kleiner (2003) part of the reasons for the failure of M&A transactions is that too often, insufficient resources are allocated to establishing the strategic objectives of the M&A transaction. In support of this view, Trompenaars and Asser (2011) "found that the first step for the creation of a successful integration is the creation of a compelling business case for the merger" (p. 25). This view is supported by Pagano and Tunisini (2011) who, based on their case study of three acquisition transactions carried out by a large Italian corporate, found that one of the variables that affected the success of those transactions was convergence in the strategic dimension.

Some of the corporate level strategic objectives of an M&A transaction include, the need for increased market power (Akdogu, 2009); overcoming entry barriers (Meyer, Wright, & Pruthi, 2009); avoiding the cost of new product development and achieving increased speed to market (Makri, Hitt, & Lane, 2009); lower risk compared to developing new products (Wan & Yiu, 2009); increased diversification (Lee & Lieberman, 2010; Vermeulen, 2005); reshaping the firm's competitive scope and learning and developing new capabilities (Ireland *et al*., 2011). A good corporate or

business level strategy starts with a review and an understanding of a company's strategic inputs, which consist of the external environment and the internal organisation of a firm (Ireland *et al*., 2011). The external environment of a firm is made up of the general socio-political and economic environment, industry structure and a competitor analysis. The internal organisation entails a review of a company's internal resources, capabilities and competencies (Ireland *et al*., 2011).

Based on an understanding of its strategic inputs, a company must then take certain strategic actions, which might include entering into a merger or acquisition transaction (Ireland *et al*., 2011). In other words, a decision to embark upon a merger or acquisition transaction must be part of a broader corporate level strategy which seeks to match what a firm might do, based on the external opportunities, to what a firm can do, having regard to its corporate capabilities, at an acceptable level of risk-a process referred to as economic strategy (Ireland *et al*., 2011; Trompenaars & Asser, 2011).

Having established a good strategic reason for embarking upon a merger, an acquiring firm must then embark upon a practical plan of how to execute the merger or acquisition. This includes planning practical aspects of a merger such as setting up an M&A team and putting together a detailed timeline of the process (Quah & Young, 2005). Importantly, such a team must comprise of a balanced mix of personnel from the acquiring firm and the target firm (Quah & Young, 2005). A tentative deal structuring plan can also be developed at this stage (Tanure *et al*., 2009).

The next step in the planning process is a systematised assessment of the firm to be acquired as part of the due diligence process (Tanure *et al*., 2009). The objective of this process is to obtain enough information about the firm to be acquired. Typically, acquiring firms focus their due diligence efforts only on the financial and legal aspects of the transaction (Badrtalei & Bates, 2007; Horwitz *et al*., 2002; Trompenaars & Asser, 2011). It is, however, important that the due diligence investigation must also include an assessment of non-financial elements of the transaction such as organisational fit, ability to merge the cultures of the two firms, technological, technical and human resource capabilities (Epstein, 2004; Jayesh, 2012; Weber, Tarba, *et al*., 2011).

To help with the conduct of such a comprehensive exercise, Marks and Mirvis (2001) suggested that the membership of the due diligence team must be broad enough to include human resource, information technology and operational staff. As Nguyen and Kleiner (2003) noted, many transactions fail or suffer significant setback as a result of insufficient due diligence performed on the target company. Worst still for the shareholders of the acquiring firm, Ireland *et al*. (2011) pointed out that the failure to

complete an effective due diligence process may, among others, easily result in the acquiring firm paying an excessive premium for the target company. It is, therefore, important not only that an acquiring firm must do a due diligence investigation of the target firm but, such a process must comprehensively assess and thoroughly examine all relevant aspects of the target firm. To do that, the team undertaking a due diligence investigation must comprise of people with a wide variety of skills and expertise (Marks & Mirvis, 2001).

2.1.4.2. Implementation (during merger) phase

This phase of the merger process entails, among others, setting the legal, structural and financial terms of the deal, securing key talent and integration teams, culminating with the closing of the deal (Hoang & Kamolrat, 2007). It is about deal structuring. To get to a point of deal closure, a lot of negotiation on the essential terms of the deal must take place (Weber, Belkin, *et al*., 2011). This is because "the performance of M&As depends not only on synergy potential available from the merger, but also on whether the synergy can actually be accessed (negotiation stage) and realised" (Weber, Belkin, *et al*., 2011, p. 112).

It is, therefore, important that the teams involved in the deal must have proper negotiation skills and be thoroughly prepared as the negotiation process presents managers with impediments that affect their ability to understand how to achieve the benefits they expect from their acquisition strategies (Tanure *et al*., 2009). This is important as part of the difficulty during negotiations is that the negotiation phase is particularly sensitive to cultural factors (Tanure *et al*., 2009). Weber, Belkin, *et al*. (2011) agreed and pointed out that whilst the negotiations literature has offered many useful thoughts and models about how to conduct negotiations, the "fallacy of such approaches is that negotiations tend to be viewed as culture free, deal focused and watertight legal packages that exclude soft factors such as culture and people" (p. 108). The need for negotiators to be aware of cultural differences during negotiations was also recognised by Tanure *et al*. (2009) who pointed out that research on negotiation processes and outcomes in cross-cultural interactions and intra-cultural interactions shows that negotiators tend to adapt their behaviour during cross-cultural interactions.

Weber, Belkin, *et al.* (2011) agreed and pointed out that recent research on M&A negotiations has revealed that many failures of M&As find their cause in the mismatch in cultures and the lack of fruitful contacts and information exchange between the two sides. It is, therefore, important that the negotiators focus on a variety of important

dynamics such as communication, trust building, cross-cultural perspectives, personalities, bargaining styles and tactics such as crafting offers and counter-offers (Quinlan, 2012; Weber, Belkin, *et al*., 2011). In this regard, Quinlan (2012) stated that "our personalities are bound to enter into how we negotiate, and, for that matter the personalities of the other parties will affect how they negotiate" (p. 10).

Another important element in the planning of the negotiations is the collection of relevant knowledge on the parties in the negotiations (Weber, Belkin, *et al*., 2011). The success of the negotiations depends on objectivity, the importance of correct information and on the painstaking planning of the course of the negotiations (Weber, Belkin, *et al*., 2011). One approach to negotiations planning is to identify important areas where cultural differences may arise during the negotiation and to devise a strategy of how to deal with that (Quinlan, 2012; Weber, Belkin, *et al*., 2011).

2.1.4.3. Integration or post-merger phase (importance of integration)

Once completed, proper integration of the merged entities is critical (Ireland *et al*., 2011). This is because, as Nguyen and Kleiner (2003) indicated, "research shows that the opportunity for mergers to fail is greatest during the integration process" (p. 447). Appelbaum *et al*. (2007) agreed with this view and indicated that the post-merger period is the most difficult time for the new team to move forward as a whole. Simply put, successful acquisitions and post acquisition performance rely on the effective organisational integration or post-acquisition of both the target and acquiring firms (Lin, 2012; Agarwal, Anand, Bercovitz, & Croson, 2012). Integration fails, among others, because of improper strategy, lack of clear vision, cultural differences and delays in communication (Nguyen & Kleiner, 2003).

Whilst agreeing that superior performance of the merged entities depends on sufficient and effective integration of the merged entities, Lin (2012) believed that more research is required into the level of integration required to achieve the desired objectives. The author's research found that "post-merger performance is also influenced by the collective effect of the firm's acquisition strategy and organisational integration" (p. 2).

2.1.4.3.1. What is merger integration?

Integration is the process of combining two firms into one entity at every level, including merging and transferring of resources, processes, people, systems, capabilities and competencies (Cording, Christmann & King, 2008; Hoang & Kamolrat, 2007). The integration phase is composed of multiple steps that can vary from company to

company (Knilans, 2009). These steps include, among others, developing a workforce integration project plan, conducting a human resource due diligence review, comparing benefits and analysing differences in values, developing compensation and benefits strategy for workforce integration, determining leadership assignments, addressing duplicate functions and determining transaction data requirements (Knilans, 2009).

Specifically, integration involves the synthesis of people into one corporate culture (Appelbaum *et al*., 2007; Knilans, 2009) and the linking of the acquirer and target firm's complementary capabilities in some form (Hitt, King, Krishnan, Makri, & Schijven, 2009; Puranam, Singh, & Chaudhuri, 2012). Over the years, several typologies regarding the integration level between the acquired and acquiring firms have been developed (Quah & Young, 2005; Tanure & Duarte, 2007). According to Barros (2001) in Tanure and Duarte (2007) the integration typologies developed fall into three categories: (1) assimilation, in which there is a high degree of change within the acquired firm but a low degree of change within the acquiring firm; (2) bending, in which there is a medium degree of change in both the acquiring and the acquired firms; and (3) plurality, in which there is a low degree of change in both the acquiring and the acquired firms.

It is within this context that Pagano and Tunisini (2011) distinguished between procedural integration, integration of the physical resources and cultural integration. This model of integration is similar to that proposed by Stahl and Voight (2008) for whom the two aspects of integration which are critical for synergy realisation are: socio-cultural integration and task integration. Socio-cultural integration includes creating a shared identify between the two firms, developing positive attitudes and creating trust whilst task integration includes activities such as capability transfer, resource sharing and learning between the merged firms (Stahl & Voight, 2008). Whilst agreeing with these views, Pagano and Tunisini (2011) argued that post merger integration efforts should not be limited to internal processes only but should also include strategies on how to improve customer satisfaction and improve supplier relationships.

Post merger integration is critical and of utmost importance for the value creation and the realisation of synergies between the merging firms (Cording *et al*., 2008; Tanure & Duarte, 2007; Weber, Belkin, *et al*., 2011). So that, even though strategic fit of the acquisition is the basis of the potential for value creation, it is managing the acquisition well that underlies actual value creation (Tanure & Duarte, 2007). It is, therefore, important that parties to any merger carefully consider how the merged entities will be integrated in order for the real value of the merger to be realised (Homburg & Bucerius, 2006). In this regard, it is important to bear in mind the advice from Epstein (2004) that

post merger integration begins with proper pre-merger planning. It is not something to be done at the end of the merger process (Antila, 2006; Jaruzelski, Mueller, & Conway, 2011).

2.1.4.3.2. Is speed of integration relevant?

The pace or speed of integration must be carefully considered (Meglio & Risberg, 2010). For instance, Homburg and Bucerius (2006) conducted a survey of 232 horizontal mergers and acquisitions from which they concluded that in some situations, speed may be highly beneficial whereas in others, it may be harmful to the success of a merger or acquisition. Their study showed that the benefits of speed of integration depended on the magnitude of internal and external relatedness between the merging firms prior to the merger or acquisition. Relatedness means the extent to which the merging firms have similar resources or product markets (King *et al.*, 2004). External relatedness refers to the extent to which the merging firms have certain outside aspects which are more or less similar such as target markets and market positioning in terms of product quality and price; whereas internal relatedness refers to the extent to which the merging firms have certain similar internal aspects such as management style, pre-merger performance and strategic orientation (Homburg & Bucerius, 2006). Speed appears to be most beneficial when external relatedness is low and at the same time, internal relatedness is high. In contrast, speed appears to be highly detrimental in the case of low internal and high external relatedness (Homburg & Bucerius, 2006; Knilans, 2009).

In their study on how to ensure that an M&A transaction yields the expected synergies, Ficery, Herd, and Pursche (2007) found that opportunities for synergies are time-sensitive. Their study found that successful acquirers tend to capture 70-75 percent of synergies in the first year after the deal thus giving credence to the view that appropriate speed of integration is important to ensure the success of a merger or acquisition. However, it is important to note that speed of integration must not be pursued for its own sake. The idea is to integrate successfully, not prematurely (Schweiger, Csiszar, & Napier, 2002). As Homburg and Bucerius (2006) stated “faster is not always better” (p. 361). In support of these views, Pagano and Tunisini (2011) stated that speed in managing acquisitions is not always the best option and that “the goal should not be speed but value creation” (p. 10).

The speed of integration must be informed by a number of factors including the size of the merger, the complexity and nature of the changes that are required (Schweiger *et al.*, 2002; Quah & Young, 2005). In this regard, Meglio and Risberg (2010) found that

whereas speed of integration is an important element to take into consideration, it must be remembered, however, that "different parts of the organisation and different groups within the organisation may experience different temporal orientations and place different emphasis on time and speed during integration phase" (p. 91). In their view, acknowledging a nuanced view of time might help disentangle hidden sources of conflict between merging firms.

There is, therefore, no single correct answer that applies in all merger cases (Homburg & Bucerius, 2006; Quah & Young, 2005; Schweiger *et al*., 2002). Ghoshal and Tanure (2004) in Tanure and Duarte (2007) have pointed out that the "choice of how integration will be carried out must be based on the objectives of the acquiring firm, the size of the firms involved, the previous experience of the acquiring firm in managing radical change and the performance of the acquired" (p. 372). Ultimately, it must be remembered that "integration is an interactive and gradualist process in which both sides learn to work together and cooperate in the transfer of strategic capabilities" (Quah & Young, 2005, p. 66).

2.1.4.3.3. Importance of culture integration during a merger

One of the other factors that are critical during the integration phase is culture compatibility or culture fit between the two merging firms (DiGeorgio, 2003; Lodorfos & Boateng, 2006; Tanure *et al*., 2009). Previous research has found that cultural differences are a threat to effective integration of post acquisition activities due to imperfectly shared understandings and that as much as 85 percent of the M&A's failure rate is attributable to the failure to manage the practical challenges of cultural integration (Pepper & Larson, 2006; Tanure *et al*., 2009). Other researchers have described cultural incompatibility as "the single largest cause of lack of performance, departure of key executives, as well as time-consuming conflicts in the consolidation of two firms" (Appelbaum *et al*., 2007, p. 192). And, it has been said that managing this enigma is one of the most critical challenges for the manager and success of the merger (Appelbaum *et al*., 2007). A more oft-cited suggestion is that "more attention and effort should be spent to properly evaluate the organisational culture fit before going ahead with the merger in order to increase its rate of success" (Appelbaum *et al*., 2007, p. 197).

For Riad (2007) the challenge that organisational culture poses for merger integration is epitomised in this oft-cited caveat that "culture is not easily modified: its full potency can be seen when two autonomous cultures are brought into close contact with each other, as typically happens when two firms merge" (p. 27). According to Fralicx and

Bolster (1997) in Appelbaum *et al*. (2007) culture can be a make or break factor in the merger equation. Whilst also agreeing with these studies, Tanure *et al*. (2009) stated that cultural factors are not only important for the post-merger phase but also during the negotiation phase.

2.1.4.3.4. What is culture?

Culture is a complex notion that refers to the pattern of artifacts, norms, values and basic assumptions about how to solve problems that works well enough to be taught to others (Cummings & Worley, 2009; Yeganeh, Su, & Sauers, 2009). Culture is a process of social learning; it is the outcome of prior choices about and experiences with strategy and organisational design (Cummings & Worley, 2009). It is a foundation for change that can either facilitate or hinder the success of a merger or acquisition (Cummings & Worley, 2009).

All organisations have a culture, an interrelated set of beliefs shared by most members of the organisation about how people should behave at work and what tasks and goals are important (Badrtalei & Bates, 2007). As Appelbaum *et al*. (2007) put it, organisational culture tends to be unique to a particular organisation, composed of an objective and subjective dimension and concerned with tradition and the nature of shared beliefs and expectations of organisational life. Culture is to an organisation, what identity is to an individual (Appelbaum *et al*., 2007). It is the way people work in organisations (Appelbaum *et al*., 2007).

Thus defined, organisational culture must be distinguished from national culture which, according to Hofstede's (1991) in Yeganeh *et al*. (2009) seminal research on this issue, can be defined as the collective programming of the mind acquired by growing up in a particular country. According to that framework national cultures are described in five dimensions: power distance, individualism, masculinity, uncertainty avoidance and long-term versus short-term orientation (Yeganeh *et al*., 2009). For a fuller understanding of these terms, the reader is referred to the work of Yeganeh *et al.* as it was beyond the scope of this report. Suffice to state that this framework of national culture has been referred to with approval by several authors and is generally used to distinguish national culture from organisational culture (Sarala & Vaara, 2010; Stahl & Voight, 2008; Yeganeh *et al*., 2009).

A strong organisational culture can create competitive advantage, increase motivation and organisational effectiveness if articulated integration processes are agreed and implemented (Horwitz *et al*., 2002). Success of a merger or acquisition hinges on the

ability of decision makers to identify a potential merger partner or acquisition target with a good strategic and cultural match (Heller, 2000). This view is supported by Horwitz *et al*. (2002) who pointed out that the more dissimilar the cultures, the greater the resultant cultural shock, particularly if the merger or acquisition was not voluntarily chosen.

Whilst not completely disagreeing with these studies, Stahl and Voight (2008) conducted a meta analyses of the performance implications of cultural differences in mergers and acquisitions which study concluded that "whether cultural differences have a positive or negative impact on the merger and acquisition performance depends on the outcome variable under investigation, the nature and extent of cultural differences, the integration approach taken and the interventions chosen to manage cultural differences" (p. 171).

Weber, Belkin, *et al*. (2011) agreed with this view and opined that in looking at the impact of culture on the performance of a merger, one must distinguish between the role of national and corporate culture and the level of integration. For instance, Hoetzel (2005) found that mergers and acquisition failures were related to national cultural differences and were more frequent in the pre-merger and post-merger phases. It is the researcher's view that Stahl and Voight (2008) and Weber, Belkin, *et al*. (2011) must not be interpreted as suggesting that culture has no impact on the success or otherwise of a merger. Rather, what these authors are calling for, is a much better understanding of the differences between national and corporate culture and its impact on the merger success.

For Stahl and Voight (2010) cultural integration does not mean cultural assimilation. Cultural assimilation is the process in which there is a high degree of change within the acquired company but a low degree of change within the acquiring company (Tanure & Duarte, 2007). In the view of Stahl and Voight (2008), if managed effectively, cultural differences might be an asset rather than a liability in an M&A transaction. This view is shared by Sarala and Vaara (2010) whose study confirmed that "national cultural differences provide great potential for knowledge transfer; and by showing that cultural integration in the form of organizational cultural convergence and cultural crossvergence is crucial in such knowledge transfer" (p. 1380). According to them, cultural integration takes place through two mechanisms: organisational cultural convergence and organisational crossvergence. However, the benefits of cultural differences can only be realised if those differences are not so large that they interfere

with the successful transfer of capabilities, resource sharing and learning (Bjorkman, Stahl, & Vaara, 2007).

A similar view had earlier been espoused by Riad (2007) who had proposed that instead of looking at the role of organizational culture for the successful integration of a merger or acquisition transaction "in a binary opposition between coherence and pluralism, researchers must adopt a dialogic perspective in terms of which, it is accepted that individuals occupy temporary positions in dynamic dialogue" (p. 26). In other words, the aim of any cultural integration interventions done during M&As must not always be to either assimilate one organizational culture into the other, nor to have two merging firms always having their own individual cultures (a situation called pluralism) but, to find a way to integrate those aspects of the two organisational cultures that are mutually shared by the two merging firms whilst celebrating the diversity of the cultures, to the extent that such diversity is positive for company performance (Riad, 2007).

Given its significant challenge for the merging firms, researchers have advised that organisations must embark upon proper cultural organisational development interventions. One such intervention to deal with cultural integration is a proper change management process (Appelbaum *et al*., 2007). Such a change management process entails a number of activities such as motivating for change, creating a vision, developing political support, managing the transition and sustaining momentum or institutionalising change (Cummings & Worley, 2009).

The above model is similar to that developed by Kotter and Rathgeber (2006) on the eight ways to manage change. As Loots (2008) pointed out, Kotter and Rathgeber's (2006) eight steps are in fact, solutions developed by these two authors to deal with eight mistakes that companies often make when implementing change. These are: allowing too much complacency, failing to create a sufficiently powerful guiding force, understanding the power of vision, under-communicating the vision, permitting obstacles to block the new vision, failing to create short-term wins, declaring victory too soon and neglecting to anchor changes firmly in the corporate culture (Kotter & Rathgeber, 2006). It is, therefore, important, when dealing with any change situation such as that encountered during a merger process, that an organisational development intervention process that attends to these eights steps embarked upon in order to increase the likelihood of success of such a change process.

2.1.5. The role of leadership

A merger or acquisition transaction is one of the most disruptive and significant workplace events (Pepper & Larson, 2006). The people that are most affected by this change are employees. As Appelbaum *et al*. (2007) noted, the lack of post-merger success is increasingly being attributed to human factors. Human capital is one of the most important resources firms rely on to gain competitive advantage in the marketplace.

As Gill (2003) puts it, "the keys to successful change are first and foremost, leadership..."(p. 309). The kind of leadership required to be effective must be integrative leadership which is able to explain and demonstrate, in practice, the vision, values, strategy, empowerment, motivation and inspiration for the employees (Cummings & Worley, 2009; Gill, 2003; Vicere, 2002). The entire merger and acquisition process requires clear leadership in order to be successful (DiGeorgio, 2002).

2.1.6. Summary of literature review relating to voluntary mergers and acquisitions

This section dealt with three aspects of the literature review: classification of mergers and acquisitions, antecedents or reasons for mergers and acquisitions and critical success factors for M&As. This last aspect of the literature review was considered within the context of the three phases of a typical M&A transaction which are pre-merger, during-merger and post-merger.

Two issues emerged from the pre-merger phase: That is, firstly, setting of the business or corporate strategy and conducting a comprehensive due diligence before embarking upon the transaction. The literature is clear that the initial step before embarking upon an M&A transaction is the creation of a compelling business case for the merger, which in many cases, arises from the corporate level strategy of a firm (Gaughan, 2011; Ireland *et al*., 2011; Pagano & Tunisini, 2011; Trompenaars & Asser, 2011). The second important part of the pre-merger phase is the conducting of a comprehensive due diligence investigation (Tanure *et al*., 2009).

Importantly, the literature suggested that such a due diligence process must focus on all aspects of the M&A process, beyond the financial considerations and must consist of a broad team composed of various functional areas within the firm such as legal, financial, operations, human resources and information technology (Badrtalei & Bates,

2007; Epstein, 2004; Horwitz *et al*., 2002; Ireland *et al*., 2011; Jayesh, 2012; Marks & Mirvis, 2001; Nguyen & Kleiner, 2003; Weber, Tarba, *et al*., 2011).

The most important element highlighted for the during-merger phase is negotiations. The literature emphasised the importance of ensuring that the people involved in negotiations are skilled in the art of negotiations (Quinlan, 2012; Tanure *et al*., 2009; Weber, Belkin, *et al*., 2011).

It was also indicated that successful acquisitions and post acquisition performance rely on the effective integration of both the target and acquiring firms (Lin, 2012; Agarwal *et al*., 2012). Integration, it was pointed out, is a multi-step, multi-level process of combining two firms into one entity at every level including the merging and transferring of resources, processes, people, systems, capabilities, cultures and competencies (Appelbaum *et al*., 2007; Cording *et al*., 2008; Hitt *et al*., 2009; Hoang & Kamolrat, 2007; Knilans, 2009; Puranam *et al*., 2012; Tanure & Duarte, 2007). But, as Pagano and Tunisini (2011) pointed out, post-merger integration efforts should not be limited to internal processes only but should also include strategies on how to improve customer satisfaction and improve supplier relationships. In this regard, it was also pointed out that the speed of integration must be carefully considered (Ficery *et al*., 2007; Homburg & Bucerius, 2006; Meglio & Risberg, 2010; Quah & Young, 2005).

Culture and cultural integration were identified as some of the factors necessary to ensure the proper integration of the merged entities or acquired firms (Appelbaum *et al*., 2007; Lodorfos & Boateng, 2006; Pepper & Larson, 2006; Tanure *et al*., 2009). However, the preceding discussion also indicated that cultural integration must not always mean cultural assimilation as cultural differences might be an asset rather than a liability in an M&A transaction (Bjorkman *et al*., 2007; Riad 2007; Sarala & Vaara, 2010; Stahl & Voight, 2008). Finally, the above literature review indicated that a proper change management process be instituted in order to increase the possibility of a successful integration of an M&A transaction (Appelbaum *et al*., 2007; Cummings & Worley, 2009; Kotter & Rathgeber, 2006).

In summary, although the literature on voluntary M&As is best understood in terms of the various phases of a typical M&A transaction, (Appelbaum *et al*., 2007; Barkema & Schijven, 2008; Gaughan, 2011; Hoang & Kamolrat, 2007), it is important to adopt a system approach in the planning, execution and implementation of any M&A transaction (Clayton, 2010; DiGeorgio, 2002; Miczka & Grobler 2010).

2.1.7. Conclusion of literature review regarding voluntary mergers and acquisitions

Table 2 below sets out the factors identified by the researcher from the literature review, as critical for the success of voluntary M&A's. For ease of understanding, these are set out in terms of the phases of a typical M&A transaction as discussed above.

Table 2: Summary of the critical success factors for voluntary M&As identified from the literature review

Pre-merger Phase	During merger	Post-merger
The decision whether or not to embark upon a merger must be informed by and be part of the broader corporate level strategy (Coffey *et al*., 2002; Gaughan, 2011; Ireland *et al*., 2011)	Constitute a negotiating team (Weber, Belkin, *et al*., 2011)	Ensure proper integration of the merged entities including the merging of resources, processes, people, systems, capabilities and competencies (Agarwal *et al*., 2012; Appelbaum *et al*., 2007; Ireland *et al*., 2011; Lin, 2012; Nguyen & Kleiner, 2003)
A firm intending to embark upon an M&A transaction must have a compelling reason for a merger, which could be synergistic or non-synergistic or strategic reason (Kode *et al*., 2003; Tanure *et al*., 2009)	Ensure that the negotiating team is properly trained and equipped in negotiations skills (Tanure *et al*., 2009; Quinlan, 2012; Weber, Belkin, *et al*., 2011)	Post merger integration must form part of the planning phase of a merger (Antila, 2006; Epstein, 2004; Jaruzelski *et al*., 2011)
The process of a merger must be properly planned (Chapman, 2004; Nguyen & Kleiner, 2003; Quah & Young, 2005; Tanure *et al*., 2009)	Consider cultural factors of the negotiating teams (Tanure *et al*., 2009)	Carefully consider speed of integration, noting that each case must be treated differently based, among others, on the size of the merger, complexity of the transaction and the nature and extent of the required changes (Ficery *et al*., 2007; Homburg & Bucerius, 2006; Meglio & Risberg, 2010; Pagano & Tunisini, 2011; Quah & Young, 2005; Schweiger *et al*., 2002)
Establish a multi-disciplinary team to execute the merger process (Epstein, 2004; Jayesh, 2012; Weber, Tarba, *et al*., 2011)		Ensure culture compatibility between the merged firms; carefully considering differences in organisational and corporate culture (Appelbaum *et al*., 2007; DiGeorgio, 2003; Lodorfos & Boateng, 2006; Pepper & Larson, 2006; Tanure *et al*., 2009)
Conduct comprehensive due diligence (considering financial and non-financial elements) of the entity to be acquired or to merge with (Badrtalei & Bates, 2007; Horwitz *et al*., 2002; Ireland *et al*., 2011; Marks & Mirvis, 2001; Nguyen & Kleiner, 2003; Trompenaars & Asser, 2011;)		The level of cultural integration must be carefully considered: assimilation, bending or pluralism (Stahl & Voight, 2008; Tanure & Duarte, 2007);
		Do not always aim for cultural assimilation as cultural differences may in fact be a source of competitive advantage (Bjorkman *et al*., 2007; Horwitz *et al*., 2002; Sarala & Vaara, 2010; Stahl & Voight, 2008)
		Put in place a proper organisational development intervention process (Appelbaum *et al*., 2007; Cummings & Worley, 2009; Kotter & Rathgeber, 2006)
		The merger process requires careful and integrative leadership (Appelbaum *et al*., 2007; Cummings & Worley, 2009; DiGeorgio, 2002; Gill, 2003; Pepper & Larson, 2006; Vicere, 2002)

Source: compiled by the researcher

2.2. Review of BBBEE M&A literature

2.2.1. Reasons for implementing BBBEE transactions

Initially, the main driver for the implementation of BBBEE transactions by firms was to ensure compliance with government procurement requirements or to qualify for government contracts, licences or concessions (Koolen, 2004). Subsequent research has, however, shown that even firms that do not directly depend on government contracts for their business are, somewhat, being forced to implement BBBEE transactions in order to retain their customers, particularly if their customers are linked to government procurement programmes (Sartorius & Botha, 2008). As Ferreira and de Villiers (2011) stated, "this illustrates that whilst [BB]BEE is not legally binding [in certain industries], it can be economically binding" (p. 26).

Sartorius and Botha (2008) conducted a survey study of 72 JSE Securities Exchange (JSE) listed companies to understand the variables that influence a successful BBBEE equity ownership transaction. Whilst somewhat similar to the current research, that study and the current research differ in the following respects: the study by Sartorius and Botha was focused on developing "a framework for structuring and funding equity ownership transactions and selecting a suitable BEE partner" (p. 438) whereas this research sought to look at factors that affect the success of BBBEE M&A transactions beyond the structuring and funding issues. As part of the Sartorius and Botha study, respondents were asked to indicate their reasons for implementing a BBBEE ownership initiative. Table 3 below sets out the reasons given by the respondents.

Table 3: Reasons for implementing BEE ownership initiatives

Reason	Number
BEE is essential for South Africa to sustain its economic and democratic structures	37
Companies see BEE as an opportunity to grow their business and market share	32
Companies are committed to the principles of BEE	29
Companies realise that BEE is a business imperative and that they will lose market share if BEE is not implemented	23
Companies wish to comply with requirements of their respective industry charter/legislative reasons/ licences	19
A BEE ownership initiative is part of a broader BEE strategy	17
Companies hope to attract and retain black staff by implementing a BEE ownership initiative	15
Companies see an advantage in being the first mover or leading BEE company in their industry	7
The companies customers require the company to have BEE credentials	7
Companies use a BEE ownership initiative as an opportunity to raise finance	7
Companies are required by government procurement to comply with BEE requirements	5

Source: Sartorius and Botha (2008: 443)

As can be seen from Table 3 above, the highest ranking reason given by the respondents to implement a BBBEE ownership scheme seems, at first glance, to suggest that maximising shareholder value is not the primary reason for implementing a BBBEE ownership scheme. However, as Strydom *et al*. (2011) pointed out, a closer examination of the full set of reasons given by the respondents in the Sartorius and Botha (2008) study indicates that the companies concerned were also motivated by financial motives. For instance, 31 percent of the respondents indicated that they implemented a BBBEE ownership scheme because they realised that BBBEE is a business imperative and that they will lose market share if they do not do so. This is consistent with the results of the study by Juggernath *et al*. (2011) which found that "compliance with the codes is...more a commercial imperative than a legal one" (p. 8227).

The reasons given by the respondents in the Sartorius & Botha study would seem to be a departure from the self-interested motives that drove BEE ownership schemes of the 1990's. Taking a slightly cynical approach, Chabane *et al*. (2006) believe that the companies that concluded the early BEE deals of the 1990's did so because "it was important to conclude highly visible and large-scale deals, especially to the extent that they concerned assets which they wanted to dispose of in any case" (p. 564). Chabane *et al*. drew this inference based on the political capital of the personalities with whom such deals were concluded in companies such as New Africa Investments Limited (NAIL) and Johannesburg Consolidated Investments (JCI). This view is shared by Tangri and Southall (2008) who noted that at that time, "companies wanted empowerment partners who could open doors and had the networking capability to deliver more orders for the business" (p. 710).

These inferences are in line with the views of Jackson *et al*. (2005) who had earlier, concluded, based on what they called the "positive revaluation hypothesis", that firms that participate in black empowerment deals will be rewarded by the market for their actions. On a more positive note, it could be said that such an approach was perhaps necessary given the socio-political context prevailing then. As Jackson *et al*. (2005) noted, "when a corporation sells a portion of the firm to a black empowerment group, it is often viewed in a very positive light" (p. 9), thus increasing its corporate reputation.

As can be seen from the above literature review, the reasons for firms to embark upon BBBEE mergers and acquisitions are different from those identified by Haleblian *et al*. (2009) referred to above, as antecedents for voluntary M&A transactions. This is, perhaps, not surprising as the literature on M&A has clearly identified that the reasons

for firms to embark upon mergers and acquisitions are many, complex and varied (Cartwright & Schoenberg, 2006; Cox, 2006; Gaughan, 2011; Huyghebaert & Luypaert, 2010; Tanure *et al*., 2009). As indicated by Kode *et al*. (2003) some of the M&A transactions are entered into for synergistic reasons whilst others are done for non-synergistic and strategic reasons.

2.2.2. Benefits of BBBEE transactions

Research on BBBEE shows that there are economic, financial and non-financial benefits for concluding BBBEE deals (Araujo, Denenga, & Milovanovic, 2007; Ferreira & de Viliers, 2011; Jack & Harris, 2007; Jackson *et al*., 2005; Marais & Coetzee, 2006; Sartorius & Botha, 2008; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans, 2012; Wolmarans & Sartorius, 2009). Often, the non-financial benefits of doing a BBBEE deal leads to economic and financial benefits (Jackson *et al*., 2005). The most obvious benefits of concluding a BBBEE ownership deal are the ability to achieve preferential procurement, obtain governmental concessions, licenses and financial support from State-owned enterprises (Marais & Coetzee, 2006). As stated by Araujo *et al*. (2007) being BBBEE compliant provides a direct financial incentive for firms that want to do business with government or State-owned entities as BBBEE compliance qualifies a firm for lucrative government contracts.

It is, however, surprising that in a survey conducted by Sartorius and Botha (2008) the "highest ranking reason for [BB]BEE ownership initiatives, chosen by 37 respondents (representing just over half of the sample), was that [BB]BEE is essential for South Africa to sustain its economic and democratic structures" (p. 443). This social realisation was further supported by 29 companies who indicated a commitment to the principles of BBBEE (Sartorius & Botha, 2008), suggesting, at first glance, that maximising shareholder value is not the primary reason for concluding BBBEE deals.

The following literature review summarises some of the academic research which has been conducted to study whether or not BBBEE is beneficial to those companies that undertake such transactions. Even though each of these studies is set out separately, the linkages and integration between and among various studies is clear.

2.2.2.1. Jackson *et al*. (2005) study

Jackson *et al*. (2005) conducted an event study to test the market reaction of the JSE to the announcement of BBBEE ownership transactions. An event study is a technique that tests for the presence of abnormal returns around key events in order to see if they

elicit a reaction in share price (Strydom *et al*., 2009; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). The "technique involves measuring the difference between the actual returns on a share during a relevant time period (known as the 'event window' period) and the normal returns expected based on some pricing model" (p. 70). Using a sample of BBBEE ownership transactions announced between 1996 and 1998, the study by Jackson *et al*. tested three questions: "(a) How do shareholders react to announcements of major BEE deals? (b) Do these reactions correlate to several theoretically important variables related to individual transactions? and (c) Do BEE announcing firms experience post-announcement negative stock price performance?" (p. 18).

With regard to question (a), their study concluded that announcements of BEE deals are associated with positive abnormal returns and that it appeared that investors rewarded firms that participated in empowerment deals. Their study found that on average, announcement of BEE transactions resulted in a significant positive cumulative abnormal return (CAR) of 1.3 percent for the 3-day event window and an average CAR of 1.8 percent for the 5-day event window period. Based on that, they concluded that they found strong support for their hypothesis that "announcements of black economic empowerment deals will result in a positive revaluation of the firm's market value of equity leading to higher shareholder returns relative to the market model over the event window" (Jackson *et al*., 2005, p. 10).

As regards question (b), their study found that abnormal returns associated with BEE transactions are significantly positively correlated with the proportion of the firm's equity acquired by the BEE group. In relation to question (c), their study found that "an equally weighted portfolio of their sample BEE firms outperformed the JSE market index by 30.76 percent over the one year period immediately after the BEE transaction announcement" (Jackson *et al*., 2005, p. 20). From a portfolio standpoint, they found that their sample of firms performed better than the market index. To test the robustness of their findings, they used an industry index as opposed to the broad based JSE index. The results still came out the same in both instances. They found that, "a value weighted portfolio of [their] sample of firms that engage in BEE transactions outperforms both a value-weighted industry index and the broad-based JSE index" (p. 20). Consequently, they concluded that "there is no evidence of negative post-announcement stock price performance for BEE transactions" (Jackson *et al*., 2005, p. 21). Overall, they concluded that BEE transactions are associated with significant positive abnormal returns for the shareholders of the announcing firms,

indicating that the market rewarded firms that entered into BEE transactions (Jackson *et al*., 2005).

2.2.2.2. Ward and Muller (2008) study

Although critical of the Jackson *et al*. (2005) study because of what they call a small sample (recall that the Jackson *et al*. study had a sample of 20 listed companies) and weak methodology, Ward and Muller (2008) conducted an exploratory research, using event study methodology, to examine the stock market reaction to announcements by listed companies relating to black empowerment transactions affecting ownership. They developed a null hypothesis to the effect that no short or long term abnormal returns exist. Similar to the Jackson *et al*. study, their study also found that the market reacted positively to the announcement of BBBEE M&A transactions. The authors also employed event study methodology to examine the long-term impact on the share prices of 60 listed companies after the announcements of black economic empowerment deals which impact ownership between 2000 and 2007. Their research found that "positive (although insignificant) returns are made in the three days preceding the announcement, but these quickly dissipate. However, over the next 240 trading days, a positive cumulative average abnormal return of around 15 percent was evident" (p. 2).

2.2.2.3. Wolmarans and Sartorius (2009) study

The results of the Jackson *et al*. (2005) and the Ward and Muller (2008) studies were confirmed by a similar study conducted by Wolmarans and Sartorius (2009). Wolmarans and Sartorius also used an event study methodology to calculate the cumulative abnormal returns (CAR) associated with the public announcement of 125 BEE transactions involving 95 companies between January 2002 and July 2006. As commented by Strydom *et al*. (2011), "it is worth noting that their sample period does not overlap with that of the Jackson *et al*. study" (p. 153) but, does overlap with the study of Ward and Muller. It is also worth noting that their study involved a larger sample than those used in the studies by Jackson *et al*. (2005) and Ward and Muller (2008). The first question the Wolmarans and Sartorius (2009) study asked was whether announcements of BEE transactions are related to shareholder value creation. For the purposes of the study, positive abnormal returns were regarded as an indication of shareholder wealth creation. Their study concluded that "on average, there was a significantly positive average abnormal return of 1.15 percent for the event window from day -1 to day +1 indicating that an average significant abnormal return over a three day window was found for the 125 BEE transactions" (p. 187).

Consequently, the authors concluded that BEE announcements have a positive impact on shareholder wealth.

To test the robustness of their findings, the researchers asked two further questions: (a) whether announcements of different types of BEE transactions lead to differences in shareholder wealth creation and (b) whether different years lead to differences in shareholder wealth creation when BEE transactions are announced? In order to answer these questions, an analysis of variance (ANOVA) was performed on a number of measures including the selling of equity to a BEE partner, the purchasing of a stake in a BEE company and other BEE transactions like involvement in partnerships or joint ventures. The authors found that "different types of BEE transactions had no impact on the creation of wealth and that this did not differ fundamentally between different years" (Wolmarans & Sartorius, 2009, p. 188).

2.2.2.4. Strydom *et al*. (2009) study

Slightly different results regarding the impact of BEE deals on shareholder wealth creation were found by Strydom *et al*. (2009). Like the previous three studies, the authors used an event study methodology to evaluate the CAR associated with BEE transactions for the period 1996 to 2006, totalling 254 transactions. Thus, their study employed both the longest sample period and a larger sample size overlapping with the periods covered by the Jackson *et al*. (2005), Ward and Muller (2008) and the Wolmarans and Sartorius (2009) studies. Their study found that the positive reaction to the announcement of BEE transactions was not universal. They found a cumulative abnormal average return (CAAR) of 0.0159 for the sample but this result was not significant at the five percent level. The average abnormal return (AAR) on the announcement day, however, was 0.00836 and was significant at the five percent level, "indicating that positive same-day abnormal returns are associated with the announcement of BEE transactions" (Strydom *et al*., 2009, p. 4).

The authors concluded that "while a positive reaction to BEE transactions over the event window was observed, it was not statistically significant and therefore, it is not possible to reach a general conclusion about market response to BEE transactions" (p. 74). They pointed out, however, that "it is important to note that there was no evidence of a negative market reaction to BEE transactions indicating at the very least that they are not perceived as being wealth reducing" (p. 74).

2.2.2.5. Strydom *et al*. (2011) study

Given the slightly mixed outcomes of the Jackson *et al*. (2005), Wolmarans and Sartorius (2009) studies, and particularly the Strydom *et al*. (2009) study, Strydom *et al*. (2011) conducted a further study to understand to what extent the size and nature of a BEE transaction are related to positive returns to shareholders. "Specifically, the authors investigated the following questions: (a) Is there a relationship between the type of transaction and the magnitude and direction of abnormal returns surrounding the announcement of a BEE transaction? (b) In the case of acquisitions, does the size of the stake acquired affect the magnitude and direction of abnormal returns surrounding the announcement of the transaction?" (Strydom *et al*., 2011, p. 155).

To try to answer those questions, Strydom *et al*. (2011) employed the same data set used in their previous study and also employed an event study methodology. To answer research question (a), "the authors constructed three different samples of firms undertaking the following types of BEE transactions: acquisitions, joint ventures and strategic alliances. They also examined both the CAARs over the event window and the announcement day AARs for the different types of transaction, and tested the statistical significance of those measures. Similarly, in order to answer research question (b), the authors classified firms that undertook BEE acquisition into different samples based on the size of the ownership stake acquired" (p. 155). The authors found that "while it appears that acquisitions and strategic alliances do not impact on shareholder value, joint ventures appear to induce a positive market response on the day the transaction is announced" (p. 161). However, in line with the Wolmarans and Sartorius (2009) study, this latest study by Strydom *et al*. (2011) found that "there is no evidence that any type of BEE transaction returns a statistically significant CAAR" (p. 162). This result is, however, based on measuring the CAAR across the entire sample of BEE transactions. The authors found that when they looked at the size of stakes acquired in BEE transactions there was, "a more nuanced picture with some evidence of a market response depending on the size of the stake acquired" (p. 162).

2.2.2.6. Ferreira and de Villiers (2011) study

All the studies indicated above looked at the relationship between a BEE ownership transaction and shareholder value. Some of them concluded, with slightly different results, that there is a significantly positive relationship between the announcement of a BEE ownership transaction and shareholder wealth creation (Jackson *et al*., 2005; Ward & Muller, 2008; Wolmarans & Sartorius, 2009) whilst others found slightly different results (Strydom *et al*., 2009; Strydom *et al*., 2011). All of these studies

looked at one aspect of BBBEE, that is, ownership. However as indicated previously, BBBEE is measured in terms of a generic balanced scorecard consisting of seven elements: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development (Esser & Dekker, 2008). To measure the progress made by any company in implementing BBBEE, a score is given against each of these elements.

Consequently, Ferreira and de Villiers (2011) conducted a study to examine the relationship, if any, between an entity's BBBEE score, as opposed to only the ownership element in the BBBEE score, and its share price, over a one-year period ending four months after the disclosure of BBBEE scores. In other words, their study focused on the entire scorecard. To do this, the authors formulated two opposing hypotheses: (a) a higher BBBEE score will result in higher future share returns for the entity and; (b) the higher an entity's BEE score, the lower its future share returns will be, because the cost of being BBBEE compliant outweighs the benefits. Using regression analysis, their study found that there is a significant negative correlation between BBBEE score and future returns, indicating that the higher a company's BBBEE score is, the lower its future returns are.

These findings are a departure from the previous studies referred to above (Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). However, it must be noted that this study measured two slightly different variables as compared to the previous studies referred to above. Whereas the previous studies referred to above only measured the relationship between the conclusion of a BBBEE ownership transaction and share price, this study measured the relationship between a company's entire BBBEE score and its future share returns.

2.2.2.7. Kruger (2011) study

A somewhat similar study to the one by Ferreira and de Villiers, was conducted by Kruger (2011). The author conducted a survey among the top local businesses ranging from small and medium enterprises to large multinational companies to "gain a better understanding of the impact of B-BBEE on business performance" (p. 208). His study measured the perceptions of 500 individual managers with regard to the probable impact that BBBEE compliance could have on ten dimensions of business performance as set out in Table 4 below:

Table 4: Ten dimensions of business performance

	Strongly agree	agree	Neither agree nor disagree	Disagree	Strongly disagree
Overall domestic and global competitiveness					
Service excellence and client satisfaction					
Quality and acceptance of products and services					
Productivity (e.g. increased output and les waste)					
Entrepreneurial spirit with innovative new products					
Production performance (e.g. lower cost and greater speed)					
Human development and staff morale					
Business ethics (e.g. transparency and reputation)					
Sales and access to markets (turnover)					
Financial performance (return on investment, dividends, share price)					

Source: Kruger (2011:230)

The results of the outcome of the survey of the perception of the respondents indicated that the impact of BBBEE on South African businesses on those dimensions is mainly negative (Kruger, 2011).

Both the Kruger (2011) and the Ferreira and de Villiers (2011) studies seem to indicate that, when measured against the entire scorecard, BBBEE does not seem to have positive results for the companies concerned. It must, however, be noted that these two studies measured different variables. Whereas the Ferreira and de Villiers (2011) study measured the relationship between a company's entire BBBEE score and its future share returns, the study by Kruger (2011) measured the impact of BBBEE on business performance as determined against a broad range of company performance dimensions. Share price performance was only one of the dimensions (Kruger, 2011).

2.2.2.8. Wolmarans (2012) study

It is the researcher's view that care must be exercised before making any general conclusions about the impact of BBBEE on company performance, based on the studies by Ferreira and de Villiers (2011) and Kruger (2011). This is partly because, Wolmarans (2012) conducted a study to measure the share price performance of 63 black economic empowerment companies listed on the JSE, specifically in terms of its creation of shareholder's wealth before, during and after the global financial crisis of 2008. The study focused on five research questions: "(a) did BEE companies perform different from the market *before* the recent financial crisis; (b) did BEE companies perform different from the market *during* the recent financial crisis; (c) did BEE

companies perform different *after* the recent financial crisis; (d) did companies with the BEE transactions in different years perform differently; and (e) did BEE companies with different market capitalisation perform differently" (p. 4975).

The price performance of those companies was investigated over a period of 30 months from 2 January 2007 to 30 September 2009, with the JSE All Shares Index used as the benchmark. The study found that "although the average performance of the BEE companies (-7.1%) was significantly less than that of the market (32.1%) before the financial crisis, the average decrease in value (-27.3%) was also significantly less than that of the market (-46.4%). After the financial crisis, the average performance of BEE companies (33.5%), was not significantly different from that of the market (39.8%)" (Wolmarans, 2012 p. 4979).

2.2.2.9. Boshoff (2011) study

Whilst previous studies (Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Kruger, 2011; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009; Wolmarans, 2012) studied the impact of BBBEE policy on M&As as well as investment returns, Boshoff (2012) took a slightly different approach. His study investigated the impact that the BBBEE policy has on the strategic decisions and value chain structures of companies. Using a case study research methodology, the author developed the following propositions: (a) BBBEE policy can act as a demand-side driver of boundary change; (b) heterogeneity in BBBEE client preference leads to heterogeneity in a firm's boundary structures; and (c) a firm implements BBBEE-driven boundary change in such a way that its competitive advantage is preserved. As the author stated, his study was only exploratory at that stage and more research is required to confirm these propositions. Nevertheless, his study makes an important contribution in understanding the strategic nature of corporate responses to BBBEE. In particular, his study indicates, preliminarily, that BBBEE policy is influencing the strategic decisions of companies, including questions of the value structures within which companies participate.

2.2.3. Summary of literature review on BBBEE mergers and acquisitions

Previous studies have shown, with slightly different results, that on average, the conclusion of a BBBEE ownership transaction leads to significantly positive cumulative abnormal returns to shareholders (Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). A slightly different study found that there is a significant negative correlation between a company's

BBBEE score and future returns, indicating that the higher a company's entire BBBEE score is, the lower its future returns are (Ferreira & de Villiers, 2011). This is not necessarily a contradiction of previous studies. Whereas the previous studies referred to in this report only measured the relationship between the conclusion of a BBBEE ownership deal and share price, the study by Ferreira and de Villiers (2011) examined the relationship between a company's entire BBBEE score, as measured through the seven elements of the BBBEE generic scorecard, and a company's future share returns.

A further study by Kruger (2011) found that BBBEE compliance has a negative impact on company performance as measured against various internal and external dimensions used to evaluate company performance. Similar to the work by Ferreira and de Villiers (2011), the study by Kruger (2011) looked at BBBEE as measured through the entire scorecard. In other words, it did not only focus on the ownership element of the scorecard. However, a study by Wolmarans (2012) found that the performance of BBBEE companies before, during and after the 2008 financial crisis was not significantly different from that of the general market.

There is, therefore, slightly confusing results about the impact of BBBEE on the performance of the companies concerned. However, some evidence exists to show that the conclusion of BBBEE ownership schemes result in positive economic and financial benefits for the entities concerned (Araujo *et al*., 2007; Esser & Dekker, 2008; Jack & Harris, 2007; Jackson *et al*., 2005; Marais & Coetzer, 2006; Sartorius & Botha, 2008; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). As the researcher indicated, care must be exercised before making any general negative conclusions about the impact of BBBEE on company performance, particularly because various studies measured different variables using different research methodologies.

2.2.4. Conclusion of literature review on BBBEE mergers and acquisitions

Previous research has quantitatively shown that the market reacts positively to the announcement of BBBEE mergers and acquisitions (Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Marais & Coetzee, 2006; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). Such research has also shown that such transactions can result in improved economic conditions for the entity concerned (Sartorius & Botha, 2008). There is, however, little research on what actually makes BBBEE M&A transactions successful (Fauconnier & Mathur-Helm, 2008; Ferreira & de Villiers, 2011; Kruger, 2011; Patel & Graham, 2012). This is

different from research on voluntary M&As. Whilst there is a plethora of literature on what factors are necessary to ensure the success of voluntary M&A transactions, there is, however, a paucity of academic literature on the qualitative factors that lead to the success or failure of BBBEE mergers and acquisitions (Fauconnier & Mathur-Helm, 2008; Kruger, 2011; Patel & Graham, 2012).

In this regard, Sartorius and Botha (2008) recommended that "it is important to establish how many BEE transactions have failed before being formally announced, and what variables made BEE transactions succeed" (p. 450). They postulated that these variables could be macro-economic factors, access to funding, company attitudes and the availability of suitable BEE partners. These issues were, however, not investigated in their study.

The need for this kind of study was also called for by Fauconnier and Mathur-Helm (2008) who stated that "BEE dealings which meet the demanding expectations of government and society within the realities of business are not easy. They are relatively low in success rate..." (p. 1). They went on to state that "although anecdotal evidence suggests some common problems that could contribute to the failure of many such deals, no empirical study could be found to validate these claims and conclude exact reasons" (p. 1). This view is supported by Kruger (2011) who stated that "[t]he academic literature on the topic of transformation in South Africa is still relatively limited in depth, and has many gaps including B-BBEE dealings, the challenges and the factors necessary for success..." (p. 212). Yet, "such research is of practical importance to managers, [corporate executive leaders, practitioners and companies] who seek to balance [BB]BEE requirements with a range of other strategic goals..." (Boshoff, 2012, p. 207).

Table 5 below provides a summary of the literature review on BBBEE M&As and indicates the gap which this study seeks to close. It is hoped that this study will contribute to existing academic literature by providing some answers to the question of what qualitative factors are necessary to ensure the success and minimise the failure of BBBEE M&A transactions, as an example of involuntary and/or non-synergistic and/or strategic M&A transactions. The last column of Table 5 provides a summary of the gap in respect of all the studies stated in the previous columns. Hence, unlike the previous columns, this last column is not divided into rows to match particular studies.

Table 5: Summary of BEE Studies

Author	Nature of Study	Finding	Gap in the literature
Jackson *et al.* (2005)	Quantitative study, using event study methodology, to test the market reaction of the JSE to the announcement of BBBEE ownership transactions	BEE transactions are associated with significant positive abnormal returns for the shareholders of the announcing firms	❖ All these studies examined the impact of the conclusion and announcement of BBBEE ownership transactions, on company performance, as measured through diverse performance measures. ❖ Overall message is slightly confusing with some studies having found a positive correlation between company performance and announcement of BBBEE transactions and some studies finding the opposite. ❖ None of these studies have actually examined the variables which are necessary for the success of BBBEE M&A transactions (Fauconnier & Mathur-Helm, 2008; Kruger, 2011; Patel & Graham, 2012; Sartorius & Botha, 2008). ❖ The present study seeks to explore the qualitative factors that are necessary for the success of BBBEE M&A transactions.
Ward and Muller (2008)	Quantitative study, using event study methodology, to examine the stock market reaction to announcements by listed companies relating to black economic empowerment transactions	Announcement of BEE transactions results in positive cumulative average abnormal returns for the firms concerned	
Wolmarans and Sartorius (2009)	Quantitative study, using event study methodology, to calculate the cumulative abnormal returns (CAR) associated with the public announcement of BEE transactions	Announcement of BEE transactions have a positive impact on shareholder wealth	
Strydom *et al.* (2009)	Quantitative study, using event study methodology, to calculate the CAR associated with BEE transactions for the period 1996 to 2006	Results not statistically significant to make a general conclusion about market response to BEE transactions	
Strydom *et al.* (2011)	Quantitative study, using event study methodology, to understand the determinants that might affect the size and nature of a market's reaction to the announcement of a BEE transaction	There is a nuanced picture with some evidence of a market response depending on the size of the stake acquired	
Ferreira and de Villiers (2011)	Quantitative explanatory study, by way of hypothesis, to examine the relationship between an entity's entire BBBEE score, as opposed to only the ownership element, and its share price	There is a significant negative correlation between a BBBEE score and future returns	
Kruger (2011)	Survey study to gain a better understanding of the impact of BBBEE on business performance as measured through ten dimensions of business performance	The impact of BBBEE on the performance of South African businesses, measured against ten dimensions of company performance, is mainly negative	

Source: compiled by the researcher

3. CHAPTER 3: RESEARCH QUESTIONS

3.1. Link of the literature review to the research problem and questions

The first part of chapter two summarised various studies, locally and globally, on the factors that apparently lead to the success or failure of voluntary M&A transactions (Agarwal *et al*., 2012; Appelbaum *et al*., 2007; Eccles *et al*., 2001; Gaughan, 2011; Gendron, 2004; Horwitz *et al*., 2002; Lin, 2012; Marks & Mirvis, 2011; Papadakis, 2005; Trompenaars & Asser, 2011). In the second part of that chapter, the researcher provided a review of the literature on why firms embark upon BBBEE M&A transactions and what the benefits of such transactions are (Sartorius & Botha, 2008). These studies looked at the benefits of concluding a BBBEE transaction for the companies concerned.

Other than the Ferreira and de Villiers (2011) study, all of those studies were based on the announcement of a BBBEE ownership transaction (Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). The study by Ferreira and de Villiers (2011) took the research further by looking at the relationship between a company's entire BBBEE score and its share price, over a one-year period, whilst the study by Kruger (2011) looked at the impact of BBBEE on business performance as measured through ten dimensions of business performance identified in that study.

Three major issues emerged from the literature review: (a) Whilst these studies have succeeded, in varying degrees, to prove that the conclusion of a BBBEE transaction has positive effect on the company's share price, it is still unclear, however, what actually makes a BBBEE M&A transaction successful (Fauconnier & Mathur-Helm, 2008; Juggernath *et al*., 2011; Kruger, 2011; Patel & Graham, 2012); (b) None of these studies (as indicated in the researcher's summary of their findings) has attempted to show the extent, if any, to which the factors identified for the success of voluntary mergers and acquisitions, are also applicable to BBBEE M&As; (c) The researcher's literature review has also shown that there are different ways to measure the "success" of a voluntary M&A transaction (Meglio and Risberg, 2011) whilst the reviewed BBBEE literature does not deal with this question.

Those are the issues which this study seeks to answer. In particular, this study seeks to answer the research questions set out below.

3.2. Research questions

Based on the above literature review, this study sought to answer the following open ended questions:

3.2.1. Research question one

What constitutes a successful BBBEE M&A transaction?; how is it measured?

This research question is motivated by the literature review conducted by Meglio and Risberg (2011) of 101 journal articles published from 1970-2008 in leading academic journals. Their study found that there is little consistency in the literature about what constitutes M&A performance. As set out in Figure 1, they found that M&A performance is generally measured in one of two domains (being either financial or non-financial domains) using different performance measures across various dimensions and relying on different indicators. Their study showed that "M&A scholars measure different things in different settings, using broad or narrow definitions, relying on a wide array of indicators each reflecting different time scales and unit of analysis" (Meglio & Risberg, 2011, p. 422).

Based on their extensive literature review, they concluded that "it is not possible to talk about M&A performance as if it were a universal construct because it is sensitive to contextual conditions. In order to understand what M&A performance is, one must take into consideration the scope conditions as well as the conceptualization and operationalisation of the construct. The different performance measures tell different stories about performance for different audiences" (p. 431).

3.2.2. Research question two

What factors are necessary to ensure the success of BBBEE mergers and acquisitions?

This question seeks to close the gap in the academic literature as identified by Fauconnier and Mathur-Helm (2008) who stated that "BEE dealings which meet the demanding expectations of government and society within the realities of business are not easy. They are relatively low in success rate..." (p. 1). They went on to state that "although anecdotal evidence suggests some common problems that could contribute to the failure of many such deals, no empirical study could be found to validate these claims and conclude exact reasons" (p. 1). This view is supported by Kruger (2011) who stated that "[t]he academic literature on the topic of transformation in South Africa

is still relatively limited in depth, and has many gaps including B-BBEE dealings, the challenges and the factors necessary for success...” (p. 212).

3.2.3. Research question three

Are the factors necessary for the success of voluntary mergers and acquisitions also applicable to BBBEE mergers and acquisitions and if so, which ones?

This question serves as a comparison measure between synergistic or voluntary M&A deals and BBBEE M&A deals. It builds on the extensive research done on voluntary M&A deals by authors such as Agarwal *et al*. (2012); Appelbaum *et al*. (2007); Badrtalei and Bates (2007); Gaughan (2011); Ireland *et al*. (2011); Jayesh (2012); King *et al*. (2004); Lin (2012); Nguyen and Kleiner (2003); Pagano and Tunisini (2011); Quinlan (2012); Tanure *et al*. (2009); Trompenaars and Asser (2011); Weber, Belkin, *et al*. (2011), regarding the factors that are necessary for the success of such transactions as set out in Table 2.

4. CHAPTER 4: RESEARCH METHODOLOGY

4.1. Introduction

This chapter sets out and discusses the methodology used for the purposes of this study. The theory and the literature section set out in chapter two provided the basis for the research problem and established the need for this study. It was established that voluntary mergers and acquisitions have been subjected to extensive research for many years in terms of what makes them to succeed or fail. On the other hand, research has, as extensively discussed in chapter two, shown that BBBEE merger and acquisition transactions provide certain economic, financial and non-financial benefits for the entities concerned. However, the researcher's review of the literature indicated that there is a paucity of academic literature in terms of what actually makes BBBEE merger and acquisition transactions successful (Fauconnier & Mathur-Helm, 2008; Ferreira & de Villiers, 2011; Juggernath *et al*., 2011; Kruger, 2011; Patel & Graham, 2012). Understanding the factors that contribute to the success of BBBEE M&A transactions is crucial (Boshoff, 2012) and this study is an important step towards a better understanding of that question.

As with and borrowing from the study by Griffiths (2010), this research process was undertaken in four stages:

Stage 1: Consisted of conducting in-depth literature review in order to establish the need for the study;

Stage 2: Data was collected through the utilisation of in-depth semi-structured, face to face interviews with experts in the field;

Stage 3: Audio-recorded data collected during the research process was transcribed, read, organised, classified, analysed, synthesised and grouped into categories and themes (Creswell, 1998 in Leedy & Ormrod, 2001); and

Stage 4: The findings were analysed and discussed within the context of the reviewed literature. Thereafter, areas for future research were identified and suggested.

4.2. Research design

4.2.1. Which research design chosen and what it is?

Given the nature of the research problem and research questions set out above, the researcher conducted a qualitative, exploratory study. An exploratory research is a

type of research which seeks to discover general information about a topic that is not well understood (Blumberg, Cooper, & Schindler, 2005; Saunders & Lewis, 2012). It is a type of research that seeks new insights, asks new questions and assesses a topic in a new light (Saunders & Lewis, 2012). Leedy and Ormrod (2001) recommend a qualitative research when the intention of the study is not only to skim across the surface but rather to dig deep to get a complete understanding of the phenomenon to be studied. As the authors put it, "in qualitative research, we...dig deep,...collect numerous forms of data and examine them from various angles to construct a rich and meaningful picture of a complex, multifaceted situation" (p. 147). Qualitative research focuses on phenomena that occurs in the real world and studies such phenomena in all their complexity (Leedy & Ormrod, 2001).

4.2.2. Why is this research design appropriate?

Leedy and Ormrod (2001) recommended that a qualitative method be used in those kind of studies where "there is not a single, ultimate truth to be discovered [but, instead,] multiple perspectives held by different individuals" (p. 147). This view is supported by Barbour (2008) who stated that "qualitative research can make visible and unpick the mechanisms which link particular variables, by looking at the explanations, or accounts, provided by those involved" (p. 11).

The literature review conducted in chapter two indicated that there are a number of qualitative factors that affect the success and failure of voluntary mergers and acquisitions and, that such factors are many, varied, complex and sometimes even contradictory (Meglio & Risberg, 2011; Miczka & Grobler, 2010; Stahl & Voight, 2008). Some of the factors identified in the literature as necessary for the success of voluntary M&A transactions are: planning (Chapman, 2004; Nguyen & Kleiner, 2003), conducting comprehensive due diligence (Badrtalei & Bates, 2007; Quah & Young, 2005; Tanure *et al*., 2009), good corporate and/or business strategy (Gaughan, 2011; Ireland *et al*., 2011; Tanure *et al*., 2009; Trompenaars & Asser, 2011), negotiation (Quinlan, 2012; Weber, Belkin, *et al.*, 2011), post-merger integration of the two merged entities (Agarwal *et al*., 2012; Lin, 2012), speed of integration (Ficery *et al*., 2007; Homburg & Bucerius, 2006; Meglio & Risberg, 2010), culture and cultural integration (Appelbaum *et al*., 2007; Pepper & Larson, 2006; Riad, 2007; Sarala & Vaara, 2010; Stahl & Voight, 2008) putting a proper change management process in place and, leadership (Cummings & Worley, 2009; Kotter & Rathgerber, 2006).

One of the research questions for this study was whether the factors which are necessary for the successful conclusion of voluntary M&As are also applicable to

BBBEE mergers and acquisitions. As stated above, it is clear from the studies on voluntary M&A transactions that there is not a single, ultimate truth about what makes those mergers and acquisitions successful (Meglio & Risberg, 2011; Miczka & Grobler, 2010; Stahl & Voight, 2008). A review of the literature on BBBEE mergers and acquisitions has demonstrated that the reasons for BBBEE mergers and acquisitions are many and varied and that there is, to some extent, slightly contradictory answers on the benefits of BBBEE mergers and acquisitions (Strydom *et al*., 2011). The BBBEE M&A literature review has, however, not provided answers as to what qualitative factors are necessary to ensure the success of BBBEE M&A transactions (Fauconnier & Mathur-Helm, 2008; Kruger, 2011). Such literature on the subject as exists merely shows that BBBEE M&A transactions have positive effect on the share price (Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans, 2012; Wolmarans & Sartorius, 2009).

The overall purpose of this study was to gain insights, perspectives and a deeper understanding of the issues raised by the research questions. The intention was to dig deep into what makes BBBEE M&A transactions to succeed or to fail. The researcher held the view that, like the question of what makes voluntary M&As successful, the question of what factors lead to the success of BBBEE M&A transactions is likely to elicit many and varied answers from the participants in the study. It was, in that context, appropriate to conduct a study such as this one using a qualitative method, given that this research problem does not lend itself to "a single, ultimate truth but rather, multiple perspectives held by different individuals" (Leedy & Ormrod, 2001, p. 147).

The intention of this study was not merely to compile a catalogue of the factors that affect the success of BBBEE M&A transactions but rather to gain a thorough understanding of what they are, their interaction with each other and how, if at all, they practically influence the success or otherwise of the BBBEE mergers and acquisitions. In this regard, Barbour (2008) pointed out that "qualitative research is particularly well suited to studying context" (p. 13). As indicated in the research objectives section above, it is hoped that this study will contribute, eventually, to the transformation and economic development of the country through the structuring and implementation of successful BBBEE mergers and acquisitions. Whilst grounded in theory, the study was very practical in its objective.

Support for the use of a qualitative method for a study such as this one is also found in Henning, van Rensburg, and Smit (2004) and also Maree (2007). These authors

agreed with Leedy and Ormrod (2001) that a qualitative approach is an appropriate methodology in those circumstances where the objective is to gain a deeper understanding of the research problem and gain a fuller understanding of the research issues. A qualitative design was also the method used by Loots (2008) in a study about how organisational culture (one of the factors that affect the success or failure of voluntary M&As) affects the success of mergers and acquisitions at subsidiary level in multinational pharmaceuticals. A similar methodology was also used by Fauconnier and Mathur-Helm (2008) in their study of "the challenges faced during the BEE transaction of Exxaro Limited as well as how those challenges were addressed" (p. 6). This was also the methodology used by Sartorius and Botha (2008) in their study on the variables that influence a successful BEE equity ownership transaction.

4.3. Population

According to Saunders and Lewis (2012), a population is a complete set of group of members. The research population for this study encompassed all South African executives, managers and practitioners working in private and public (listed and unlisted) companies who have concluded BBBEE mergers and acquisition transactions. The researcher was of the view that because of the nature of the research problem, it was not necessary to define the population by way of reference to the time or period during which such a BBBEE merger or acquisition was done. The issues the study aimed to explore were not time-bound.

4.4. Sampling technique

As the study did not have access to a sampling frame, non-probability sampling techniques were used to select the sample (Blumberg *et al*., 2005; Saunders & Lewis, 2012). In particular, a purposive, non-probability sampling technique was used. As Saunders and Lewis (2012) stated, this method is used to select a small sample when collecting qualitative data. In this regard, Barbour (2008) stated that "this approach to sampling relies on selecting interviewee...participants by virtue of characteristics thought by the researcher to be likely to have some bearing on their perceptions and experiences" (p. 52). Saunders and Lewis (2012) agreed with this and recommended this technique when a researcher "is using their judgement to actively choose those who will best be able to help answer the research question and meet the objectives" (p. 138). According to Blumberg *et al*. (2005) this method is used "when a researcher selects sample members to conform to some criterion" (p. 253).

The reason for the use of this technique was that, firstly, as indicated in the section dealing with the research instrument, this study was conducted by way of semi-structured expert interviews. Secondly, the experts for the study were deliberately chosen because of their ability to provide insights to the research questions based on their knowledge, expertise and experience in conducting BBBEE mergers and acquisitions. The experts were chosen for their ability to share their experiences, rather than to represent a large group (Fauconnier & Mathur–Helm, 2008). A purposive sampling is used when you need to understand what is happening so that you can make logical generalisations (Saunders & Lewis, 2012). As Barbour (2008) stated, "the goal of qualitative [purposive] sampling is not to produce a representative sample, but is rather to reflect diversity and to provide as much potential for comparison as possible" (p. 53). That is precisely what this study sought to do. As indicated previously, this study did not seek to prove cause and effect but rather to explore and provide insights into those factors that contribute to the success or otherwise of BBBEE mergers and acquisitions.

4.5. Sample and sample size

Because of the nature of the study, a sample of 13 experts who have concluded BBBEE M&A deals in the past was used. According to Leedy and Ormrod (2001) and Griffiths (2010) a sample size of between five and 25 is deemed adequate for a study of this nature where the objective of the study is to find a sample which has had direct experience of the phenomenon or process being researched. The size of the sample used in this study is in line with that used by Fauconnier and Mathur–Helm (2008) in their study of a research problem which is somewhat similar to the one considered by this study. The participants were purposively chosen based on their expertise and willingness to participate in the study. All the participants were based in Johannesburg although their companies operated nationally throughout the country.

4.6. Unit of analysis

Blumberg *et al*. (2005) stated that an important step in designing research is the decision on the unit of analysis. The unit of analysis describes the level at which the research is performed and the objects which are researched (Blumberg *et al*., 2005).

Accordingly, the unit of analysis for this research was the factors affecting the success of BBBEE mergers and acquisitions.

4.7. Data collection

4.7.1. Research instrument

Following receipt of the ethical clearance from the Ethics Committee of the University of Pretoria, the researcher proceeded to collect the data. According to Saunders and Lewis (2012) and Cummings and Worley (2009), one of the instruments to use to collect data is by way of structured, semi-structured or unstructured interviews. For the purposes of this study, face-to-face, semi-structured in-depth interviews were utilised. As the researcher was conducting a semi-structured interview, it was not possible to provide a full list of the questions to be asked as would normally be the case with a structured interview process (Leedy & Ormrod, 2001). In this regard, Saunders and Lewis (2012) stated that "[t]his means that, unlike with a structured interview, it is not possible to work out all the questions you will ask or the order in which you will ask them" (p. 156). They went on to state that "the types of questions you use and the order in which you use them depends on the responses you receive from the participants during the interview" (p. 156). Following on the advice from Barbour (2008), the researcher did, however, have an interview checklist that was used and this is attached hereto as Appendix 1. The purpose of preparing an interview checklist was to ensure content and construct validity (Saunders & Lewis, 2012).

The reason for using this method is that semi-structured, face-to-face interviews provided an opportunity to ask direct questions and additional questions from participants and thus allowed the researcher an opportunity to explore the research questions in more depth or to check that the understanding of what the participant was telling was correct (Cummings & Worley, 2009; Saunders & Lewis, 2012). Commenting on this type of research instrument, Fauconnier and Mathur-Helm (2008) stated that "this method allows freedom to further explore themes and questions emerging from the interviews and to give the interviewee an opportunity to offer information outside the initial themes and questions posed" (p. 6). Barbour (2008) agreed and stated that "the semi-structured aspect is crucial as it refers to the capacity of the interviews to elicit data on perspectives of salience to respondents rather than the researcher dictating the direction of the encounter, as would be the case with structured approaches" (p. 119).

The instrument fitted the research method and allowed the researcher to answer the research questions and meet the research objectives in terms of getting depth to the responses rather than simply quantity (Saunders & Lewis, 2012). As the researcher indicated above, the purpose of this study was to dig deep (Leedy & Ormrod, 2001)

rather than superficially compile a catalogue of factors that are apparently responsible for the success of BBBEE merger and acquisition transactions.

4.7.2. Reliability and validity

To improve the reliability and validity of the questionnaire, the researcher conducted a semi-structured, face-to-face pilot test interview based on the interview checklist set out in Appendix 1, with one participant. In order to avoid 'staging effect', this participant was not informed that the interview is a test pilot. Even though only one participant was used for the pilot stage, the researcher concluded that it was sufficient as this particular participant is the chief executive officer in her company and has had extensive experience of conducting BBBEE mergers and acquisitions. She has, in terms of knowledge and expertise of BBBEE M&A deals, similar profile to the sample participants (Saunders & Lewis, 2012). Saunders and Lewis (2012) recommended this approach in order to check that the questionnaire works, that the participants have no problems in answering the questionnaire and that their responses will be correctly recorded. As Saunders and Lewis (2012), stated, the researcher believes that this approach "helped to confirm that the actual respondents will understand the meaning of the questions" (p. 149).

4.7.3. Number and length of interviews

Face-to-face, in depth semi-structured interviews were conducted during office hours at the offices of each of the participants. Although the participants were all senior executives in their organisations, in line with the research ethical guidelines, the interview process started with the researcher explaining to each participant the purpose of the research, the research methodology to be used, explaining to the participants that their participation is voluntary and that they may withdraw at any point of the interview and also explaining to them that their personal responses will be treated confidentially through the use of anonymous quotations (Saunders & Lewis, 2012). The participants did, however, specifically agree that their profiles can be disclosed as an annexure to this report and used for the purpose of this study. Thereafter, each of the participants was asked to complete and sign a consent form to participate in the study and confirming the issues set out above, before the commencement of the interview. The copies of the signed consent forms in respect of each participant, together with subsequent emails from each of them confirming the use of their profiles, are attached hereto as Appendix 2.

Most of the interviews took approximately one hour although some went on for about one hour and thirty minutes. No follow-up interviews were conducted with the relevant participants as the responses were very clear and any ambiguities that there might have been were clarified during the actual interview. The interviews were audio recorded. In all instances, the permission of the participants to audio record the interviews was obtained before the commencement of the interview. The ability to audio-record the interviews allowed the researcher sufficient time to listen carefully to the responses during the interview whilst taking some notes (Cummings & Worley, 2009; Saunders & Lewis, 2012). A further reason for the audio recording of the interviews is that it enabled the researcher an opportunity to listen to the responses several times after the interviews whilst reviewing the responses. This assisted with triangulation and thereby, increased the data credibility (Saunders & Lewis, 2012).

At the end of the interview, all the audio-recorded interviews were saved on a computer data-base according to the name of the interviewee and the date of the interview. Thereafter, each audio-recorded interview was transcribed using Microsoft word processing software. These transcripts were also saved on a computer data-base according to the name of the interviewee and the date of the interview. Thus, the total data collected consisted of audio records of the interviews, the typed-out transcripts thereof and the researcher's handwritten notes made during the interviews.

4.8. Data analysis

The responses of the participants were analysed using qualitative, thematic content analysis, data analysis technique. A content analysis is a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or biases (Leedy & Ormrod, 2001).

Cummings and Worley (2009) described the process of content analysis as follows: "First, responses to a particular question are read to gain familiarity with the range of comments made and to determine whether some answers are occurring over and over again. Then, secondly, based on this sampling of comments, themes are generated that capture recurring comments. Themes consolidate different responses that say essentially the same thing. Then, thirdly, the respondents' answers to a question are then placed into one of the identified categories. The categories with the most responses represent those themes that are most often mentioned" (p. 130).

The approach referred to above is broadly similar to the steps set out in Creswell's (1998) in Leedy and Ormrod (2001) data analysis spiral, as shown in Figure 3 below.

The researcher employed this approach as it was an effective method to analyse themes that developed from the open-ended data (Breakwell, Hammond, & Five-Schaw, 2000; Sartorius & Botha, 2008) and to turn it into meaningful information (Griffiths, 2010).

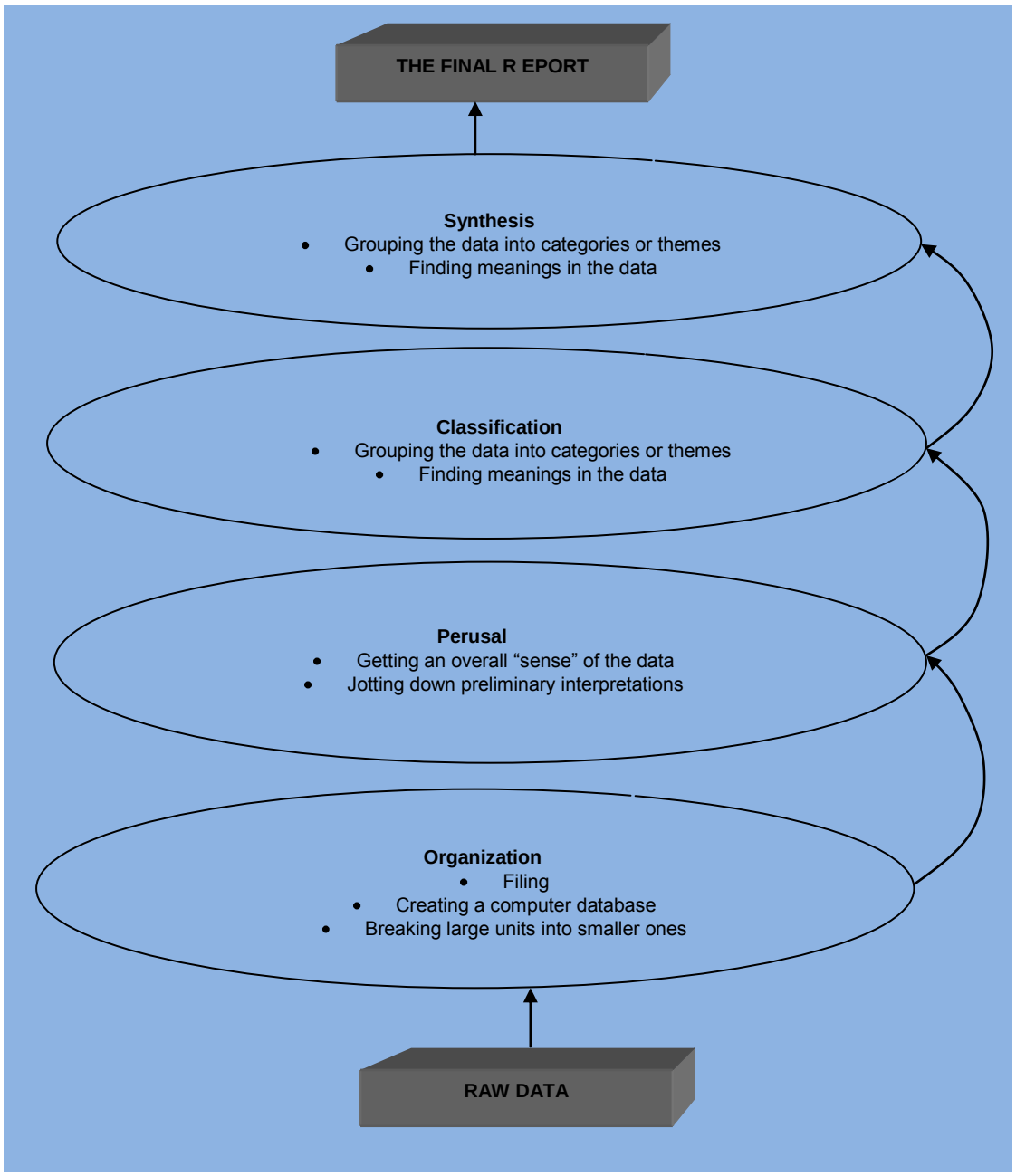
Following on Creswell's (1998) data analysis spiral, as referred to in Leedy and Ormrod (2001), and as also used by Griffiths (2010), the data analysis was carried out in the following stages:

- Firstly, the audio-recorded responses of each participant per research question were transcribed and filed electronically on a computer data-base according to the name of the participant and the date of the interview. These were also printed out and saved in hard copies in a data file. This step constituted the organisation of the raw data (Creswell, 1998 in Leedy & Ormrod, 2001; Griffiths, 2010).

- Thereafter, the researcher read through all the transcripts, per participant, per research question, to gain familiarity with the data (Creswell, 1998 in Leedy & Ormrod, 2001; Griffiths, 2010). In that process, the researcher started making notes organising the data per research question and per participant into certain emerging categories and themes (Creswell, 1998 in Leedy & Ormrod, 2001; Griffiths, 2010). At this stage, the categories and the themes were mainly preliminary.

- Then, an iterative process followed whereby all the preliminary categories and themes, per research question and per participant, were organised into further meaningful categories and themes (Barbour, 2008; Creswell, 1998 in Leedy & Ormrod, 2001). This iterative process was long and arduous and continued until all the responses, per participant, per research question, were organised and synthesised as set out in Appendices 3 and 4. So that, Appendices 3 and 4 are composed of processed data derived from a review of each participant's responses per research question. It is from these appendices that various tables, per research question, used in chapters five and six, were derived.

Figure 3: The data analysis spiral



Source: Cresswell (1998) in Leedy & Ormrod (2001: 161)

4.9. Assumptions

The researcher made a number of assumptions going into this research. These were:

- That BBBEE M&As are different from other types of M&As and that therefore, the factors which affect their success are different; and
- That the participants would frankly and honestly share their experiences and expertise.

4.10. Potential research limitations

The potential limitations to this study are:

- Self selection / volunteer bias based on the fact that the sampling technique used was a non-probability purposive sampling technique (Chipp, 2012; Saunders & Lewis, 2012);
- As Zikmund (2003) and Griffiths (2010) noted with regard to these kind of studies, the sample size may hamper the ability of making generalised statements about factors affecting the success of BBBEE M&As;
- Personal or interviewer bias (Saunder & Lewis, 2012) may distort the data although every effort was made by the researcher to check and verify the results against the raw data obtained;
- Although all the participants in the study have extensive experience in conducting BBBEE M&A transactions, the factors they mentioned as necessary for the success of BBBEE M&As are their own subjective views. None of those factors were (nor could they have been) independently and empirically tested, given the exploratory nature of this study. This point is discussed later in chapter seven.

5. CHAPTER 5: RESULTS

5.1. Introduction

This chapter sets out and briefly discusses the data collected during the research process. As indicated in chapter four, the population for the study encompassed all South African executives, managers and practitioners working in private and public (listed and unlisted) companies who have concluded BBBEE mergers and acquisition transactions. The sample consisted of 13 experts who were carefully, deliberately chosen because of their ability to provide insights to the research questions based on their knowledge, expertise and experience in conducting BBBEE mergers and acquisitions. These experts were chosen for their ability to share their experiences, rather than to represent a large group.

The process followed for the collection of these results is set out more fully in chapter four. As indicated, this was done through face-to-face semi-structured interviews during office hours at the offices of each of the participants. In the following sections, this report will discuss the demographics and profiles of the participants. Thereafter, the layout of the results is briefly explained. Paragraph 5.3 indicates that the presentation of the results follows according to the order of the research questions.

Thus, the presentation of the results starts with a layout of the findings regarding the measures of success for a BBBEE M&A transaction. Based on the approach in the literature review, these data is presented according to the categories of the nature of the success measures for an M&A transaction: that is, the report first sets out the financial domain success measures and thereafter, the non-financial domain success measures. Three financial domain success measures are identified: (i) social returns to the community; (ii) value realisation; and (iii) cost of the transaction. Thereafter, the results of the study with regard to research question two and three are set out in thematic format in tabular form.

5.2. Demographics of the participants

The sampling technique used for the selection of the sample for the purpose of this study has been more fully described in chapter four and briefly summarised in the introduction above. To demonstrate the expertise and experience of the participants, Table 6 sets out their demographics. These are set out in no particular order. This was deliberately done to preserve the anonymity of the participants with regard to the quotations used in this report. Thus, the sequence of the list of participants as set out

in Table 6, bears no relevance to the use of participant numbers in the body of this report. It is clear from Table 6 that the sample consisted of participants who have extensive expertise, skills and experience of conducting BBBEE M&A deals over many years. Not only are these participants very senior executives in their organisations but, they actually have practical experience of originating, structuring, negotiating, executing and implementing BBBEE M&A deals. They are seasoned BBBEE M&A deal-makers. Among them, the participants have done a roughly estimated number of over 200 BBBEE mergers and acquisitions. Exact numbers could not be established as some of the participants did not remember. The companies from which the participants were drawn consisted of ten BBBEE companies that have done numerous BBBEE equity deals whilst three of the companies are non-BBBEE companies.

Ten of the participants are chief executive officers, one is a chief financial officer, the other is a senior executive in charge of the strategy for mergers and acquisitions in her company and the other was the Divisional Executive in her former company. Most of these participants are highly regarded and respected business people and some of them are recipients of numerous business awards. A brief synopsis of the business and personal profile of each of the participants is set out in Table 7 below. As with Table 6, that table is also randomised.

Table 6: Demographics of the participants

Participant	Position in company	Size of company by turnover/ gross assets*	Listed / unlisted	Number of BBBEE deals concluded	Age of the company
1.	Chief executive officer	Not available	Unlisted	+50	18 years
2.	Chief executive officer	R7 billion	Unlisted	+20	10 years
3.	Chief executive officer	R1.5	Listed	+10	20 years
4.	Chief executive officer	R2.8 billion	Unlisted	+5	17 years
5.	Executive chairman	R3.5 billion	Unlisted	+40	20 years
6.	Executive: mergers and acquisitions	Not available	Unlisted	+40	18 years
7.	Former divisional executive	R3.5 billion	Unlisted	+5	20 years
8.	Acting CEO	R35 billion	Unlisted	+10	10 years
9.	Chief financial officer	R14 billion	Unlisted	+-100	20 years
10.	Chief executive officer	Not available	Unlisted	+25	6 years
11.	Chief executive officer	R5 billion	Listed	3	25 years
12.	Chief executive officer	Not available	Subsidiary of a listed company	4	16 years
13.	Chief executive officer	R2 billion	Unlisted	2	40 years

Source: *the estimated size of the companies was based on the latest publicly available company information as at 2012 .

Table 7: Profile of the participants

Participants	Credentials
Joacquim Scholtz	An enthusiastic, versatile and accomplished ***Senior Business Executive,*** whose significant accomplishments include recognising the opportunity and steering to completion, a private equity purchase of some assets from an American Top Fortune 500 in South Africa. Prior to that (1997) he also motivated for The Dow Chemical Company (Dow) the largest private American investment in the New South Africa having a net worth in excess of R 8.5 Billion (USD 875 m). Energetic well organized and results driven individual with strong communication skills and outstanding team-building ability. Leads by example and operates efficiently both individually and in a team environment. His exceptional strategic thinking and technical abilities have significantly driven new ventures and ongoing profitable development of others in an international career spanning more than 25 years with Dow, later with South African listed group Omnia LTD and currently with private group Safripol. Has acquitted himself with merit in all roles from junior engineer through to senior chief executive and board level appointments. Motivated to find sustainable recipes for success, aided by the combination of a strong technical background and business experience and exposure. Described by others as persuasive, charismatic, creative, innovative and optimistic. A natural leader, knows how to motivate a team for results and developments and how to address the needs for coaching, and the respect for the diversity of culture and ideas inherent in people as a further competitive advantage. Interacted successfully and comfortably with unions, industry players, public and in government environments
Murphy Morobe	Murphy Morobe was appointed as CEO of Kagiso Media in November 2006. Murphy has a career spanning the worlds of student activism, trade unionism, work in the non-governmental sector, politics, the public sector, conservation and the corporate sector. Beginning his working life in 1982 after his release from Robben Island, as a Trade Unionist with the General and Allied Workers Union, he went on to work as the Publicity Secretary of the United Democratic Front in the 1980's to 1990's. From 1989 to 1994 he worked for PG Bison Ltd as Manager, responsible for Transition Affairs and later Corporate Social Responsibility. In 1994 Murphy was appointed the first Provincial Secretary of then PWV Region in terms of the Interim Constitution, charged among other things with establishing the first Provincial Legislature of what became the Gauteng Province. Always seeking fresh challenges, Murphy was then later in 1994 appointed as the first CEO and Chairman of the Financial and Fiscal Commission established in terms of the Constitution to make recommendations to Parliament regarding the equitable sharing of nationally collected revenue between national, provincial and local government. He remained in that post until 2004 when he joined the Presidency as Head of Communications, a role he played until 2006 when he joined Kagiso Media. In the interim Murphy also served in various board capacities, both in the non-governmental and private sectors, inter alia, the Council on Higher Education (1999-2000); Chairman South African National Parks Board (1999-2005); Chairman Ernst & Young (SA) (2001-2005); Chairman Johannesburg Housing Company (2003-2006), etc. Currently, Murphy is co-chair of City Year South Africa and he serves on the board of Food & Trees for Africa, WWF and The Steve Biko Foundation.
Louisa Mojela	Louisa is a founder and Group CEO of WIPHOLD. Louisa has held positions at Standard Corporate and Merchant Bank and Development Bank of Southern Africa (during which time she was seconded to the World Bank in Washington DC), and the Lesotho National Development Corporation. Louisa graduated with Bachelor of Commerce from the National University of Lesotho. She has also completed the Executive Leadership Program at Wharton School of Business at the University of Pennsylvania. In 2000 Louisa was selected as one of 40 women from different continents and countries for "The Leading Women Entrepreneur of the World". In 2008, Louisa was recognized as one of South Africa's most influential women in business and government. In May 2009, Louisa was the winner of the Inaugural African Business Leadership Award in Dakar, Senegal by the African Development Bank (AfDB). In January 2010 Louisa received 'The Builders of the African Economy Award'' in Abidjan, Ivory Coast. Louisa serves on several boards including Distell, Sun International, ABB SA, Sasol Mining and Life Healthcare Group Holding (Pty) Ltd.
Vusi Khanyile	Vusi Khanyile Executive Chairman Having persuaded key individuals that an investment fund should be set up to finance community projects, Vusi helped to establish Thebe Investment Corporation in 1992. A community activist for most of his adult life, Vusi has participated in numerous development programmes and community-based organisations. Vusi has served as director on a number of listed and unlisted companies, and serves on various boards in a non-executive capacity, such as Shell SA Refinery and Vodacom SA. He is also the Independent Chairman of Santam and Lead Independent Director of the JD Group. He holds an Honours degree in Accounting and Finance from the University of Birmingham, a Fellowship in Development Finance at Princeton University and an Honorary Doctorate from the University of Transkei. Vusi's previous appointments include: ANC Head of Finance (1990 to 1992), Chairman of the Educational Development Trust (since 1989), NECC founding Chairman (1985 to 1989), and Special Assistant to the Vice Chancellor, and later Deputy Registrar, at the University of Cape Town. Vusi started his career in the finance division at Anglo American and later ran his own finance company.

Harry Louw	Harry was born in Swakopmund, Namibia, where he completed his schooling before moving to SA to undergo military service and complete a degree in Social Sciences at UCT. He then spent 13 years working in the retail sector of the oil industry, before moving to the start-up Altech Netstar. In his 17 years at Altech Netstar, he has held various executive positions, and seen the company grow from a loss-making concern to become the biggest profit contributor to the Altron and Altech Groups. Three years ago Harry was promoted to the position of Managing Director. In addition to various tertiary qualifications, Harry has an MBA (cum laude) from Wits Business School.
Sonja Sebotsa	Education: LLB (Hons), London School of Economics (1993); MA in Economics and Business McGill University (1996), Harvard Executive Programme (2012). Since she started her career in early 1997, Sonja has been involved in deal making in South Africa, Africa and internationally. She was formerly a Vice-President, Investment Banking, at Deutsche Bank, where she advised clients on corporate transactions, mergers and acquisitions, privatizations, IPO's, black economic empowerment transactions and financings working in Johannesburg, London and Tokyo. In 2002 to 2007, she was part of a team that built a portfolio of investments (an endowment) to benefit a women's broad based Trust, Women's Development Bank, including acquisitions in Paracon, Bidvest, FirstRand, Discovery and AngloCoal Inyosi. In 2008, Sonja co-founded Identity Partners - a Johannesburg based boutique firm focused on investing in established and growing businesses, advising government and corporate clients, and carrying out development fund management. Its investment portfolio includes companies in the insurance, ICT, transport, mining and energy sectors. Its advisory work includes transaction advisory, public retail offers, financings, transformation and empowerment policy. A subsidiary Identity Development Fund targets social impact managing R145 million to fund women and youth owned SME's. Another subsidiary Identity Resources, focuses on Mining and Resources transactions. Sonja is a non executive Director on the boards of RMBH/RMI, Discovery, Anglo Platinum, Dimension Data SA, and she is one of the World Economic Forum's Young Global Leaders (Class of 2010).
Frencel Gillion	Frencel has more than 15 years experience in investment management. A chartered accountant by training, he headed the corporate finance department at the Development Bank of South Africa from May 2003 to November 2005. He has worked for African Merchant Bank Ltd and the Industrial Development Corporation and was then appointed as Investment Principal at Actis Africa Empowerment Fund. He joined the National Empowerment Fund (NEF) in January 2007 as the Chief Investment Officer, growing the NEF investment portfolio in excess of R1 billion. He was appointed as Group Financial Director of Kagiso Trust Investments in January 2011.
Mary Bomela	Mary joined the MIC on July 1, 2010 and previously served as a Non-Executive Director from March 2008 to 2010. Before joining the MIC, Mary was the Chief Financial Officer at Freight Dynamics. Prior to this, she was an executive in the Corporate Services division of the South African Institute of Chartered Accountants. Mary also held executive positions in the resources, media, utilities and financial services sectors. She serves on the boards of a number of the company's strategic investments. These include: Tracker Investment Holdings Ltd, Metrofile (Pty) Ltd, Set Point Technologies (Pty) Ltd, MSA Africa (Pty) Ltd, Eastvaal Motor Holdings (Pty) Ltd, Peermont Global Holdings (alternate) and Masana Petroleum Solutions (Pty) Ltd (alternate). She also serves as a non executive director on the board of Rand Mutual Assurance Company Ltd, FirstRand.
Richard Pike	Richard Pike qualified as a Chartered Accountant (SA) in 1989 and holds a B Com (Honours) degree from the University of the Witwatersrand. He was articled to Deloitte Haskins & Sells after which he joined Hunt Leuchars & Hepburn Limited as Group Financial Manager and was later appointed Financial Director of HL&H Mining Timber. In 1995, Richard co-founded Morgan University Alliance, a private education and business consulting initiative which he listed on the Johannesburg Stock Exchange under the name, Acumen Holdings Limited, in 1999. Richard subsequently sold Acumen to Adcorp Holdings Limited in 2000 and was appointed as Chief Executive Officer of Adcorp in 2001, the position he currently occupies today. He is a member of the South African Institute of Chartered Accountants, the Southern African Association of Corporate Treasurers and is a past fellow of the University of Warwick in the United Kingdom. He is currently a member of Business Leadership South Africa and The Millennium Labour Council, a Nedlac affiliate. Richard is the author of two books, Tangled Toes, Pins & Needles and The New Divide and has also authored numerous business articles and is a prominent public speaker.
Lucas Ndala	Mr. Lucas Malamule Ndala, CA (SA), BCom. (Hons) UCT, PGDM (UCT), B.Com. (UWC) serves as Interim Chief Executive Officer and Executive Finance Director at Royal Bafokeng Holdings (Pty) Limited. Mr. Ndala served as the Finance Manager of Strategic Investments at Royal Bafokeng Finance. Mr. Ndala's responsibilities include meetings with potential investees, preparations of financial forecasts and valuations, participation in deal negotiation, attending board meetings as either shareholder representative or board member. He served as a Manager at Barclays Bank Plc SA. Mr. Ndala's Corporate Credit Responsibilities included preparation of the SA and non-presence countries credit papers for approval by the credit committee, monitoring of financial covenants and taking corrective action in the event of breach. He served as a Trainee Accountant at Deloitte & Touche. Mr. Ndala serves as the Chairman and Director of MB Technologies Ltd. He attended client meetings with corporate banking team. Mr. Ndala has been a Director of Phoka Petroleum, Matafield Petroleum and

	Geared Lubricants (Exxon Mobil JVs with RBN) since January 2005. He serves as a Director of Royal Bafokeng Capital (Pty) Ltd. Mr. Ndala served as a Non-Executive Director of South African Coal Mining Holdings Ltd until August 31, 2011 and Metair Investments Ltd.
Gugu Dingaan	Gugu joined WIPHOLD in 2001 after completing her articles with PricewaterhouseCoopers (PWC) Financial Services Banking Audit Group. She has been involved in corporate finance where she's worked on mergers and acquisitions, transaction structuring and valuations. In her current role at WIPHOLD as an Investment Executive, she is responsible for growing WIPHOLD's investment portfolio and executing WIPHOLD Africa Growth Strategy. She is a non-executive board member of Distell Group, SA Corporate Real Estate Fund Managers, ABB SA, Adcorp Holdings, MCG Industries, Landis+Gyr and AWCA. She is chairs the ABB SA audit committee and is audit committee member of SA Corporate Real Estate Fund Managers, Adcorp Holdings, MCG Industries and Landis+Gyr. She is also the chairman of Khulisani Foundation and Distell Foundation. She is a Chartered Accountant and has an Executive Development Program Certificate from Stellenbosch Business School.
Phuti Mahanyele	Phuti is the CEO of Shanduka Group (Pty) Ltd. She joined Shanduka in 2004 as the Managing Director of Shanduka Energy (Pty) Ltd. She was previously the head of the Project Finance South Africa business unit at the Development Bank of Southern Africa. Prior to that she was Vice President at Fieldstone, an international firm specialising in the financing of infrastructure assets. She joined the firm in New York in 1997 and later transferred to the South African office. She is involved in a number of activities with youth in her personal capacity. She is currently mentoring young professionals and students. She is involved with the "Dignity Day" programme which is led by Young Global Leaders of the World Economic Forum and is focused on re-enforcing the values of dignity in young people. She is also a Patron of NEET (National Education Empowerment Trust). • She was awarded the "Rutgers Vision of Excellence Award "by Rutgers University in 2011. • She was awarded the "Most Influential Woman in Government and Business – Financial Services" in 2009. • She was listed as one of the "Top 50 women in the world to watch in 2008" by the Wall Street Journal. • She was selected as a Global Young Leader in 2007 by the World Economic Forum. • She was awarded the "Top in Project Finance, 2003" award by the Association of Black Securities & Investment Professionals (ABSIP). Her academic qualifications are a BA Economics from Rutgers University (State University of New Jersey. USA) (1993) and an MBA from De Montfort University in Leicester, UK (1996). She completed the Kennedy School of Government Executive Education Programs" Global Leadership and Public Policy for the 21st Century", at Harvard University in 2008. She is a member of the boards of a number of Shanduka Group investee companies.
Lindiwe Gadd	Ms. Lindiwe Gadd serves as the Head of Thebe Enterprises. Ms. Gadd's responsibilities include the acquisition and management of businesses within her division, and providing strategic direction to the investee companies as a Board representative. She served as Group Services Executive and Corporate Affairs Manager at Thebe group. During her 15-year career in both the public and private sectors, she gained extensive experience in communications, strategic management,project management and organisational development. Prior to working at Thebe, Ms. Gadd ran her own management consultancy and was Chief Executive Officer of Freedom Park Trust. She serves as a Non Executive Director of Accentuate Ltd and is a Member of Executive Committee of Thebe Investment Corporation (Pty) Ltd. She served as a Director of Efficient Group Limited (a/k/a Efficient Financial Holdings Ltd.) since January 30, 2009. Ms. Gadd holds a Masters Degree in Social Science and Politics from Glasgow University, a Certificate in Management and a Certificate in Finance and Accounting from Wits Business School.

Source: compiled by the researcher from publicly available information with the express written permission of the participants

5.3. Results presentation

The results of the study are presented according to the research questions set out in chapter three. To recap, those research questions are as follows:

- **Research question one**

  What constitutes a successful BBBEE M&A transaction? How is it measured?

- **Research question two**

  What factors are necessary to ensure the success of BBBEE mergers and acquisitions?

- **Research question three**

  Are the factors necessary for the success of voluntary mergers and acquisitions also applicable to BBBEE mergers and acquisitions and if so, which ones?

5.4. Results for research question one

What constitutes a successful BBBEE M&A transaction? How is it measured?

The participants were asked an open-ended question to indicate what, for them, would constitute a successful BBBEE M&A transaction. The objective of this question was to determine how each of the participants assesses the performance of a BBBEE M&A transaction and what measures, dimensions and indicators they use for that. As indicated in chapter three, the rationale for this question emanates from the literature review, which indicated that with regard to voluntary mergers and acquisitions, there is little consistency about what constitutes M&A performance. Accordingly, this question sought to find out what, for purposes of BBBEE, constitutes a successful BBBEE M&A transaction and, whether the measurements used to assess the success or failure of voluntary M&As are also applicable to BBBEE M&A transactions.

The significance of this question was confirmed by a comment from participant number 13 who, even before the researcher could ask the question, said the following: "*this question calls for an explanation of what is your definition of success because there are so many ways to define what is success; it could be by way of return on equity, return on investment, value creation, employment creation, strategic future growth, etc...there are so many ways to define success*".

The full set of measures mentioned by each participant in response to this research question is set out in Appendix 3. The process to develop this appendix was long and elaborate. After transcribing all the audio-recorded interviews, the researcher read through each participant's responses to this research question and organised those responses into meaningful measures. In this regard, it must be borne in mind that on average, the responses of various participants consisted of about 12 typed pages on a normal A4 page using Arial font and a sentence spacing of 1.5 centimetres.

A detailed discussion and analysis of these responses is set out in chapter six. As required by the research report guidelines, this chapter focuses mainly on the presentation of the results, with limited commentary thereon. Immediately upon review, one is struck by the diversity of the measures mentioned by the participants as set out in Appendix 3. The list is as diverse as the participants.

Participant number 9 aptly prefaced her answer to research question one as follows: "*the answer to that question depends on the needs of both parties and whether one is looking at it from the perspective of the acquiring company or the investee company. The starting point of the two merging firms is different*". This line of reasoning was shared by participant number 12 who said: "*the measurement of the success of a BBBEE M&A depends on the reason for such a transaction*". This participant used two extreme examples to illustrate his point. He distinguished between those companies that enter into BBBEE M&As purely because it is a legislative requirement to do so and those that enter into BBBEE M&As because it is a commercial and business imperative. In his view, those BBBEE M&A transactions entered into with the former purpose in mind are unlikely to succeed whilst those done with the latter objective in mind are more likely to succeed.

Another participant, number 3, started his response to this question as follows: "*The key is to have a strong sense of what the core of the business actually is so that when you identify a target it should speak to that core*". Yet another participant, number 5, put it as follows: "*It is about economic empowerment but, with BBBEE, it is much more than just the economics*". In emphasizing that BBBEE is more than just economics, participant number 11 put the point as follows: "*in measuring BBBEE performance, one must distinguish between the tangible and intangible factors*". This participant said that for him, the tangibles are financial measures, which in his view, are easy to measure, whilst the intangibles are the "soft" aspects, which, in his view, are difficult to measure.

But, participant number 6 differed with those views; she said "*to my mind, the performance of a BBBEE M&A transaction should be measured in the same way as*

any other M&A transaction". She went on to state that like any other transaction, "*there are specific things that are being sought for in a BBBEE merger and therefore, the initial reason for the deal is what should guide its measurement of success or otherwise"* and that in that sense, the assessment of BBBEE M&A performance should be no different from any other M&A transaction.

That view is in stark contrast to the majority of the responses though. The following statement by participant number 2 summarises the views of many participants on the question of whether BBBEE M&As should be measured in the same way as voluntary M&As: "*one of the components for measuring the success of a BBBEE M&A transaction would, firstly, be a well structured transaction because by the very nature of the fact that it is a BBBEE M&A transaction, is going to be very different from any other structured transaction*".

Whilst agreeing with most of the responses expressed above regarding the measurement of BBBEE M&As, participant number 11 cautioned that, "*I do not ever think that BBBEE is an event- it is journey; so I don't think you can say as an event it is a success but I think you can say that you are on a successful BBBEE journey".* This was also agreed to by participant number 4. In support of this view, participant number 9 said "*the measurement of a BBBEE M&A success is a long-term thing; the success of a BBBEE M&A is not when a transaction is concluded but rather, when value is unlocked."*

The criticism that can be levelled at the above statement is that it engages in circular reasoning. If success of a BBBEE M&A is only measured when "value is unlocked", when, then, would one say that value has been unlocked? Nevertheless, the point is well made that, at least as far as some participants are concerned, the performance of a BBBEE M&A transaction cannot be measured as if it is a once-off event. In this regard, participant number 13 stated that it is important that parties to a BBBEE M&A deal must put proper milestones along the way so that they can objectively measure whether or not they are succeeding in what they set out to achieve. This participant elucidated his point as follows: *"like the Chinese proverb, if you do not know where you are trying to go, chances are that you are not going to get there".*

Still on the question of how one measures the success of a BBBEE M&A transaction, participant number 6 wondered "*whether moral or ethical filters should be used as part of evaluating the success or otherwise of a BBBEE M&A deal".* This participant recommended that this could be an area of future studies.

Interestingly, participant number 13 thought that how one measures the success or otherwise of a BBBEE M&A deal depends on whether the investee company is a listed public company or a private company. Unfortunately, the participant did not expand on where the differences are and why that should be so. Given the time constraints during the interview process, the researcher was not able to probe this matter any further. In any event, this issue is not relevant for the purposes of this study. The research question, as would be remembered, was how to measure the success of a BBBEE M&A transaction; not whether or not the measurement of a BBBEE M&A transaction should depend on whether or not the entity in question is listed or not.

In order to clarify, give meaning and content to the myriad of the participants' responses, the researcher took Appendix 3 and divided it into two tables: Table 8 provides an extract of only the measures which fall within the so-called financial domain whilst Table 9 provides a summary of all the measures which fall within the non-financial domain. These tables were developed after a long, arduous iterative process of reading through each participant's responses, identifying common measures between different participants and organising all those common measures into particular themes. Thereafter, the number of times each theme was mentioned by various participants was noted and that count was used to allocate a ranking for that theme. Thus, both Table 8 and Table 9 are rank-ordered according to the frequency with which each theme was mentioned by the participants. The theme of measures mentioned by most participants is ranked first whilst the theme of measures mentioned by the least number of participants is ranked last.

5.4.1. Financial domain success measures

Table 8: Financial domain success measures for BBBEE M&As

Rank	BBBEE M&As financial domain success measures	Frequency
1	Cost of the transaction • Extent of facilitation provided by the investee company • Level of discount • Vendor financing • Nature and type of 3rd party funding terms	8
1	Value realisation • Ability of the BBBEE party to realise value post the term of funding of the transaction • BBBEE deal must be in the money	8
3	Pre-defined hurdle rates • Internal rate of return • Net asset value growth • Return on equity • Return on investment • Revenue growth • Income statement measures • Earnings-based measures	7
4	Cash generation • Dividend payments or trickle dividend • Payment of management fees	6
4	Synergy realization	6
6	Social returns to the community	3

Source: compiled by the researcher from Appendix 3

An interesting point to note about the financial measures set out In Table 8 above is that there is no single measure which was mentioned by all the participants in the study as being common. Some measures were mentioned by more participants than others and some were mentioned by only three participants.

Furthermore, whilst many of the measures in Table 8 are self–explanatory, such as those falling within the theme of "pre-defined hurdle rates", there are a few, whose meaning is not immediately obvious upon reading the Table 8. It is to those measures that some commentary is provided herein, noting that a full analysis and discussion of these measures follows in chapter six.

5.4.1.1. Social returns to the community

One of the financial domain success measures mentioned in Table 8 is the use of social returns to the community, as a measure of whether or not a particular BBBEE M&A transaction is successful or not. This was explained by participant number 7 as follows: "*does the target company engage in some social initiatives that as a BBBEE party you could say that as a result of my involvement, these are the things that the target company has managed to do which it was not doing before. It is important to show that the BBBEE M&A deal has resulted in more than the financial returns".* This

statement is consistent with that made by participant number 5 who stated that for her, the success of BBBEE is measured by looking at more than the economics of the deal.

5.4.1.2. Value realisation

Given that most BBBEE M&A transactions are, as discussed later in chapter six, highly geared, it is, perhaps, not surprising that another measure mentioned by most participants to assess the success or otherwise of a BBBEE M&A transaction is whether or not BBBEE companies are able to retain some equity value post the transaction financing period. This is captured under the theme of "value realisation" in Table 8.

The following statement by participant number 2 represents the sentiment of most participants with regard to this measure: "*I measure the success of a BBBEE M&A transaction post the acquisition and post the life of the investment by the extent to which the BBBEE party has been able to pay off their obligations and also realise the value, whether that is in a form of cash that they are able to sell a component of the shares or whether just through the value that's been created*". Another participant, number 11, put it as follows: "*success* [of a BBBEE M&A deal] *has to be* [when the transaction] *is in the money...the BBBEE deal must be in the money post the deal*".

5.4.1.3. Cost of the transaction

Another interesting financial measure mentioned by some of the participants is the issue of the cost of the transaction. An indicator mentioned by a few participants in this regard is whether or not there is vendor financing for the deal. Vendor financed transaction are those BBBEE M&A deals where the target company provides finance (usually a by way of a notional loan) to the BBBEE entity in order for the BBBEE entity to acquire its shares. In the BBBEE nomenclature, this is referred to as facilitation. More will be mentioned in chapter six about this issue.

5.4.2. Non financial domain success measures

As indicated earlier, Table 9 sets out the non-financial domain success measures mentioned by the participants. The compilation of this table was also a fairly involved process. Once the researcher had identified all the financial domain success measures, the rest were then immediately categorised as non-financial domain success measures. However, they could not simply be taken as set out in Appendix 3. To compile Table 9, the researcher again read through the list of only the non-financial domain success measures set out in Appendix 3, per participant, and organised each

of them thematically, per participant. Thereafter, common themes among various participants were identified and merged into a single theme. This followed an iterative process until, finally, the themes set out in Table 9 were derived. Thereafter, a count was done for each theme to determine the number of participants who mentioned a particular theme. This was used to calculate the frequency column set out against each theme. Then, the table was rank-ordered according to the frequency with which a particular theme was mentioned by the participants.

Table 9: Non-financial domain success measures for BBBEE M&As

Rank	BBBEE M&As non-financial domain success measures	Frequency
1	Relationship and trust	**8**
1	Transformation	**8**
1	Strategy	**8**
4	Culture fit / common values / shareholder alignment	**7**
5	Operational involvement by BBBEE partner	**4**
6	Level of community investment / SRI	**3**
7	Transaction structure	**2**
7	Market share	**2**
7	Operational efficiencies	**2**
10	Competencies	**1**
10	Employment creation	**1**
10	Commercial sustainability	**1**

Source: compiled by the researcher from Appendix 3

As with the financial domain success measures set out in Table 8, Table 9 also contains a few interesting observations, some of which would, at first glance, seem to be difficult to accurately quantify. For instance, participant number 1 commented that for them, success of a BBBEE M&A transaction is measured by the "*extent to which the transaction results in an African tapestry of peoples and cultures*". That statement is subsumed under the theme of transformation. But, the participant did not elaborate further as to when or how one would measure such an outcome. This line of thinking was expressed as follows by participant number 8 who indicated that for them, the success of a BBBEE M&A transaction is measured by the extent to which the BBBEE company succeeded in "*helping the staff of the investee company to see the world differently".*

Another participant, number 7, said that for them, the success of a BBBEE M&A transaction is measured by "*the extent to which the BBBEE M&A transaction results in the creation of a company that is truly South African...the extent to which this company espouses the values of botho...*". Once again, this would probably be difficult to

quantitatively measure accurately. When asked how they would measure such a variable, the participant said that "*one would have to rely on certain proxy measures such as black staff retention rate; has society's perception of the company changed positively as a result of the merger, etc...*".

Another interesting measure is the use of ethical or socially responsible investment practices as a measure of the success or otherwise of a BBBEE M&A deal. The use of this measure gives credence to the view expressed by participant number 5 who said that for them, "*BBBEE, is much more than just the economics*".

Yet another interesting measure is employment creation. The use of this measure was expressed by participant number 13. Typically, though not always, M&As result in job losses as merging firms embed the merger and rationalise functions that may otherwise be duplicated or overlapping. Yet, participant number 13 stated that for them, success of a BBBEE M&A transaction is measured by the extent to which it has resulted in the creation of new employment opportunities.

5.5. Results for research question two

What factors are necessary to ensure the success of BBBEE mergers and acquisitions?

The purpose of this question was to find answers that can close the gap in the academic literature as identified by Fauconnier and Mathur-Helm (2008) which they expressed as follows "BEE dealings which meet the demanding expectations of government and society within the realities of business are not easy. They are relatively low in success rate..." (p. 1). They went on to state that "although anecdotal evidence suggests some common problems that could contribute to the failure of many such deals, no empirical study could be found to validate these claims and conclude exact reasons" (p. 1). This view was supported by Kruger (2011) who stated that "[t]he academic literature on the topic of transformation in South Africa is still relatively limited in depth, and has many gaps including B-BBEE dealings, the challenges and the factors necessary for success..." (p. 212).

Accordingly, the participants were asked an open ended question to indicate the factors which, in their experience, are necessary to ensure the success of BBBEE M&A transactions. The formulation of this question as question number two was deliberate. The researcher thought that it is best, first to get the participants to explain how they measure the success of any BBBEE M&A transaction and then, to identify the factors

that are necessary for such success. In line with the research methodology, the responses of the participants are exploratory in nature in a sense that they are based on the subjective experiences of the participants which have not been empirically tested. These factors are set out in Appendix 4.

In Table 10, the various factors mentioned by the participants as necessary for the success of BBBEE M&A transactions are arranged in a thematic format. These themes were arrived at as follows: Firstly, the researcher read through each participants' responses to research question two and summarised them into some logical theme as set out in Appendix 4. Then, the researcher read through the themes set out in Appendix 4 to identify common themes between the responses of various participants. These were merged further into a common theme which was then listed in Table 10. Thereafter, the number of times each theme was mentioned by various participants was noted. This was then used to allocate the frequency column for each theme which was in turn, used to compile the ranking for the various themes. The result of which is that Table 10 is arranged in rank-order, with the themes mentioned the most, ranked highest, and the theme mentioned the least, ranked the lowest.

Table 10: Thematic arrangement of BBBEE M&A success factors

Rank	BBBEE M&As success factors	Frequency
1	Cultural alignment	11
2	Corporate level strategy / Planning	9
3	Transaction rationale	7
3	Due diligence	7
5	Active governance	6
5	Leadership	6
5	Operational involvement	6
5	Transformation	6
9	In-house capability to assess and structure deals	5
9	Transaction structure	5
11	Own equity contribution	4
11	Alignment of expectations	4
13	Communication	3
14	Negotiation	2
14	Personal relationships	2

Source: compiled by the researcher from Appendix 4

A point to note about the themes in Table 10 above is the high frequency of cultural alignment as a theme that was mentioned as being important for the success of

BBBEE M&As. Participant number 5 said, in relation to this issue, that "*culture is critical*". She went on to say though that "*you will never be able to really get a perfect culture fit...but I think what is important is being able to make sure that even within your differences, you can work together and are able to take that forward*". In support of this point, participant number 8 stated that in her view, the most important thing to remember about culture is to have an alignment of values because "*values are able to bridge, to create a bridge between the two cultures*".

A theme that attracted the second highest frequency is that of the importance of ensuring that any BBBEE M&A transaction that is entered into forms part of a company's corporate level strategy. Participant number 8 put the importance of this theme as follows: "*there has to be a strategy because otherwise you will have a shotgun approach in terms of which whatever you are able to hit goes*". Participant number 7 put it as follows "*as a BBBEE partner define and understand the sector you wanna get into; do a thorough research; make sure you fully understand that sector's strengths, weaknesses, cyclicality, the market that business will operate in and so forth...*".

But, participant number 9 was not convinced that most people embarking upon BBBEE M&A deals do that. She felt that with BBBEE M&As, "*there is a lot of talk about intention, but no clearly thought out strategy*". She went on to say that "*the difficulty we have with BBBEE M&As, as opposed to other M&As, is who the actual drivers of M&As are. If you look at traditional M&As, it is actually quite often driven from an operational side...but with BBBEE M&As, we've turned it on its head, in the sense that it is driven from the front end by the corporate financiers*".

A further point to note about Table 10 is that there are a number of factors which were ranked equally by a large number of participants. Surprisingly, the importance of proper planning for the implementation of the merger, as opposed to ensuring that the merger or acquisition forms part of a company corporate level strategy, was only mentioned by one participant. For purposes of this study, this factor was incorporated into the factor dealing with corporate level strategy. The reason for this is that this is how the literature deals with this factor as set out in Figure 2.

In Table 11, the results set out in Table 10 are organised according to the phases of a typical M&A transaction as set out in Figure 2. It must be noted that this is not how the participants discussed these factors. The researcher organised the factors mentioned by various participants into this manner in an attempt to align them, as close as possible, with the literature. Admittedly, some of them might not fit neatly into a

particular phase. Indeed, two of them, leadership and communication, cut across the various phases of a typical merger transaction. Thus, Table 11 is merely for ease of understanding.

Table 11: Success factors according to the BBBEE M&A phases

Pre-merger	During merger	Post-merger
Transaction rationale	Negotiation	Transformation
Corporate level strategy	Alignment of expectations	Operational involvement
Proper planning	Transaction structure	Active governance
In house capability to assess the deal		Culture alignment
Due diligence		Relationships management
Own equity contribution		
Leadership	Leadership	Leadership
Communication	communication	Communication

Source: compiled by the researcher from Table 10

5.6. Results for research question three

Are the factors necessary for the success of voluntary mergers and acquisitions also applicable to BBBEE mergers and acquisitions and if so, which ones?

Based on the literature, this question serves as a comparison measure between synergistic or voluntary M&A deals and BBBEE M&A deals. It would be remembered that in chapter two, the researcher set out an extensive list of the factors which are apparently necessary for the success of voluntary mergers and acquisitions. These factors are set out in Table 2. In order to compare voluntary M&As and BBBEE M&As, the participants were asked to indicate whether, in their experience, the factors that are necessary for the conclusion of voluntary M&As are also applicable to BBBEE mergers and acquisitions.

The results of this research question are mixed - a three way split. Some participants indicated that BBBEE M&A deals require their own success factors and should be measured differently, whilst others felt that the same factors that are necessary for the success of voluntary M&As are also applicable to BBBEE M&As. Yet, others, more aligned with the former group, said that BBBEE M&A transactions require additional success factors, which are different from those that are applicable to voluntary M&As.

The following statement by participant number 2 summarises the views of the two groups of participants who either stated that BBBEE M&As require different success factors or additional success factors. Admittedly, the quotation is fairly long but the

researcher thought that it is important to state it as it is. To try to reduce it would detract from a full appreciation of the meaning of the quotation:

> "*I think they are different because the additional work that goes with the BEE transaction is different;, it does require a different frame of thinking. If the target company has to be thinking about facilitating the company that is acquiring a stake in its business, it changes a frame of mind, because it's a principle issue and it sort of changes the discourse of discussion and you've got to be able to negotiate that well: to say look it may look as if you giving up something now but through this transaction and through this partnership, this is the value that's going to be yielded, so you've got to be able to articulate that well. But for a company that's doing a transaction with you it does kind of put them like...* [sic] *because they feel like they giving up something.*
>
> *This is not a typical transaction, typically what is it that makes the acquirer to be in a strong position, is the fact that they are putting money on the table or they've got a big bank that's putting money on the table on the back of their balance sheet. But, when you are a BEE investor, you don't necessarily have money to put on the table and that immediately puts you on the back foot. So the power changes, and so you've got to have the ability, in order to maintain that respect; to articulate the value that you bring as a black investor into the business so that you don't become an investor that has a different classification of shares because ultimately that's what happens.*
>
> *In fact, in any case, that's what happens because you invest into a business through the third party funding that you raise and a bit of facilitation from the company if you can negotiate that, but then you will have the clause that say but you can't sell your shares for x period because we need the BEE points. That immediately reclassifies your shares because you don't have the same level of liquidity or there will be a clause that says well if you sell you can only sell to another BEE company, your pool that you can sell to, is small. So it immediately reclassifies the shares that you've got. BEE M&A is different from your classical M&A transaction"*.

On the other hand, the following statement by participant number 6 summarises the views of those who said that the same factors that are necessary for voluntary M&As are also required for BBBEE M&As: *"They shouldn't be* [different]*. When people approach them sometimes as I say they suspend certain logic, it doesn't mean it is right, it is just my view, but they shouldn't be, it is like any other deal. Just because one party is a State, just because one party is a BEE [sic], it doesn't mean that you suspend commercial rationale for the duration of* [the deal]*. Now how you structure it, there might be some structural impediments, from the point of view of negotiating a discount or structuring the financing. But otherwise it should be the same"*.

The split between those participants who indicated that BBBEE M&A deals require their own factors of success or additional success factors to those of voluntary M&A deals, and those that said that they require the same factors is set out in Table 12 below.

Table 12: Participants' responses to research question three

Participants' views	Frequency
BBBEE M&As require same success factors as those applicable to voluntary M&As	2
BBBEE M&As require different or additional success factors to those applicable to voluntary M&As	11

Source: compiled by the researcher

As can be seen from Table 12, an overwhelming majority of participants either said that BBBEE M&As require different success factors or additional success factors to voluntary M&As. Only two of the participants were adamant that BBBEE M&As require the same success factors as the voluntary M&As.

Those participants who said that BBBEE M&As require different success factors or additional success factors to voluntary M&As, were then asked to identify what those factors are. These are set out in a rank-ordered thematic format in Table 13 below. In chapter six, the researcher provides a comparison between Table 13 and Table 2. It would be remembered that Table 2 sets out the factors derived from the literature review as being necessary for the success of voluntary mergers and acquisitions.

Table 13: Success factors uniquely required for BBBEE M&As

Rank	BBBEE M&A success factors	Frequency
1	Funding structure -discount -facilitation -vendor financing	11
2	Transaction rationale	6
2	Transformation	6
4	Need to allow balance sheet freedom to allow for future growth ability	2
4	Relationships / partnerships	2
6	Social investment	1
6	Horses for courses	1

Source: compiled by the researcher

5.7. Conclusion

The data relating to the three research questions has shed some light on the factors that are necessary for the success of BBBEE M&As. It would appear from the data that what constitutes a successful BBBEE M&A transaction and how such success is measured is not only transaction specific but also depends on who you ask. This is most probably, confirmation of Meglio and Risberg's (2011) contention that "it is not possible to talk about M&A performance as if it were a universal construct because it is sensitive to and contingent upon contextual conditions" (p. 431). This will be discussed later in chapter 6.

Finally, the data has also produced divergent views on whether the same factors that are necessary for the success of voluntary M&As are also applicable to BBBEE M&As. Two diametrically opposed views emerged: one group of participants said that they are whilst another said they are not. The third group of participants took a middle ground: they said that BBBEE M&As require additional success factors to those required for voluntary M&As.

The next chapter discusses these results within the context of the literature review.

6. CHAPTER 6: DISCUSSION OF RESULTS

6.1. Introduction

The purpose of this study, as informed by the research problem, was to identify the factors that affect the success of BBBEE mergers and acquisitions by answering the research questions set out in chapter three of this report. These research questions were developed from and after a review of the relevant literature as set out in chapter two. The results with regard to each of the research questions are set out in chapter five. In this chapter, these results are discussed and analysed in details within the context of the literature review.

For ease of understanding, these results are discussed and analysed per research question. The nature of the research questions was open-ended and this allowed the participants an opportunity to mention and discuss a host of factors that, in their experience, and based on their expertise and skills, they deemed relevant and necessary firstly, for the measurement of the performance of BBBEE M&A transactions and, secondly, for the success of such transactions.

The results presentation in chapter five followed a thematic approach in terms of which the responses to each research question, per participant, were grouped into meaningful themes that cut across the responses of the various participants. The next section of this report discusses these results in details.

6.2. What constitutes a successful BBBEE M&A transaction? How is it measured?

6.2.1. Background

In chapter two, the researcher reviewed, summarised and discussed the extensive academic research that has been done regarding the success factors for voluntary M&As. That literature review indicated that despite decades of research in the M&A field, the key variables that are necessary for the success of voluntary mergers and acquisitions remain largely unexplained and that such research as exists in this field has, sometimes, resulted in contradictory and inconsistent findings (King *et al*., 2004; Stahl & Voight, 2008).

Different authors have offered various reasons to explain these disjuncture and contradictions. Some attribute it to the diverse range of research methods used by the researchers (Micka & Grobler, 2010) whilst others argued that the reason for this lack of consistency is due to the fact that M&A research has tended to develop along

discipline-based lines (Cartwright & Schoenberg, 2006). Marks and Mirvis (2001) simply argued that the difficulty lies in practical difficulties of conducting M&A performance research.

Meglio and Risberg (2010) on the other hand, attributed this contradiction and inconsistency of the research findings to the fact that most M&A scholars use different performance measures embedded in different research methods to determine what constitutes a successful M&A transaction. In their subsequent study, Meglio and Risberg (2011) found that "the problem with M&A performance research would then not be poor construct measurement, not the identification of new variables to explain and predict performance. Rather, the problem would be the lack of clarity in constructing the different measures and a widespread tendency to compare incomparable results in a quest to find variables explaining the variance in performance" (p. 419).

After extensive review of the relevant literature in leading academic journals, Meglio and Risberg (2011) concluded that "it is not possible to talk about M&A performance as if it were a universal construct because it is sensitive to contextual conditions. In order to understand what M&A performance is, one must take into consideration the scope conditions as well as the conceptualisation and operationalisation of the construct. The different performance measures tell different stories about performance for different audiences" (p. 431).

Accordingly, research question one was developed. The objective thereof was to find out how and what measures are used to determine a successful BBBEE M&A transaction.

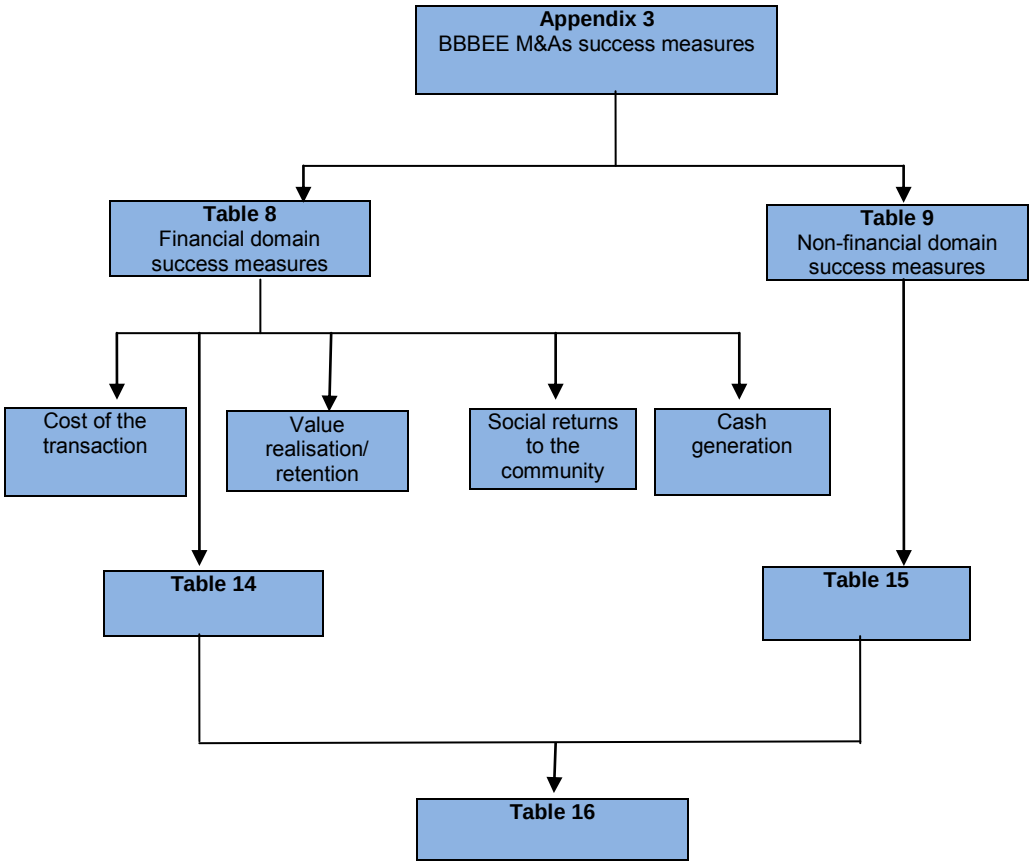
The question elicited a diverse range of measures used by the participants to assess whether or not a particular BBBEE M&A transaction is successful, thus supporting the literature on this point (Meglio & Risberg, 2011). These measures are set out in Appendix 3. That there is a diversity of measures used for determining whether a particular BBBEE M&A transaction is successful or not was, in the researcher's view, correctly put as follows by participant number 13: "*this question calls for an explanation of what is your definition of success because there are so many ways to define what is success; it could be by way of return on equity, return on investment, value creation, employment creation, strategic future growth, etc...there are so many ways to define success*".

Indeed, that is correct. One of the ways to define success would, in the researcher's opinion, be informed by the reasons for implementing BBBEE ownership initiatives.

Some of the reasons for implementing BBBEE M&A transactions were analysed by Sartorius and Botha (2008) and are set out in Table 3. The researcher's view is that it would be surprising if there was only one way to define M&A success whereas the reasons for BBBEE M&As and voluntary M&As are many, varied and complex (Cox, 2006; Gaughan, 2011; Horwitz *et al*., 2002; Kode *et al*., 2003; Sartorius & Botha, 2008; Tanure *et al*., 2009). To paraphrase Meglio and Risberg (2011), one cannot assess M&A performance as if it were a universal construct; its measurement is sensitive to contextual conditions. In this case, part of that context is the reason for the implementation of the BBBEE M&A transaction.

In their study, Meglio and Risberg (2011) had found that scholars generally conceive M&A performance as being of a financial or non-financial nature. Following on their findings, and in line with this study's research methodology, the researcher took each of the measures of success as listed in Appendix 3 and organised them into two categories: Table 8 consists of the financial domain success measures whilst Table 9 consists of the non-financial domain success measures. The discussion of the results relating to research question one follows the process set out in Figure 4 below.

Figure 4: Research question one discussion flow chart



6.2.2. Financial domain success measures

In the following sections of this report, the two highest ranked financial domain success measures ("cost of the transaction") and ("value realisation"), and the fourth ranked financial domain success measure ("cash generation") together with the lowest ranked financial domain success measure ("social returns to the community"), as set out in Table 8, are discussed and analysed in details. The reason for limiting the discussion only to these measures is that the measures ranked number three ("pre-defined hurdle rates") and the one entitled "synergy realisation" as set out in Table 8 above, are not only self-explanatory but are also fairly similar to the ones used in relation to voluntary M&As. These have been extensively covered in literature as indicated in chapter two, particularly as summarised by Meglio and Risberg (2011) above. In line with the scope of this research report, the focus of discussion is mainly on those measures used to assess the success of BBBEE M&As.

6.2.2.1. Cost of the transaction

Extract from Table 8

Rank	BBBEE M&A financial domain success measure	Frequency
1	Cost of the transaction • Extent of facilitation provided by the investee company • Level of discount • Vendor financing • Nature and type of 3rd party funding terms	8

The cost of the transaction to the BBBEE entity, as manifested through the level of facilitation provided by the vendor, either though the amount of vendor finance or discount provided by the vendor, was mentioned by 61 percent of the participants as one of the measures they use to determine whether or not a particular BBBEE M&A transaction is successful. Participant number 2 put it as follows: "*the cost of the transaction...if the transaction is structured and funded in such a way that the cost is not too heavy for the BEE entity; I think that is a successful transaction; so the ability to negotiate aspects of the transaction that would give some form of facilitation because the fact that it is BEE means that there has to be some form of facilitation*".

That statement, read within the context of the fact that 61 percent of the participants mentioned this factor as one of the measures they use to determine whether or not a particular BBBEE M&A transaction is successful, suggests, in the researcher's view, that from the BBBEE entities perspective, the ability and willingness of the target company to provide some form of facilitation for the share acquisition by a BBBEE

entity (either though a discount on the share price or vendor finance at preferential rates) is almost an expectation. This would certainly seem to be the case when that statement is read with the following statement by the same participant in relation to the ability of the BBBEE party to realise value post the term of the transaction funding: "*I measure the success of a BBBEE M&A transaction post the acquisition and post the life of the investment by the extent to which the investment has been able to pay off their obligations and also realise value, whether that is in a form of cash that they are able to sell a component of the shares or whether just through the value that's been created*".

Lest that statement is thought to be that of an outlier, participant number 8 put it as follows: "*successful BBBEE M&As, from the perspective of an acquirer, is where...you are able to retain at least 60 percent of what you initially acquired because most of these transactions are highly geared and usually at the end of the term, that is when you have to settle the funding. So, if after settling the funding, you are able to retain at least 50 to 60 percent of what you had initially acquired...that would be a successful transaction.*"

It is not surprising that the "cost of the transaction" in the manner described above, should feature so highly in the list of financial domain success measures for BBBEE M&As. It is generally known in commerce and practice that access to capital is one of the major challenges faced by many BBBEE entities (Cargill, 2010; Fauconnier & Mathur-Helm, 2008; Hamann *et al*., 2008; Sartorius & Botha, 2008). Consequently, many of these deals are generally done through some form of facilitation by the vendor, either through vendor finance or discount provided by the vendor (Sartorius & Botha, 2008). Indeed, this is clear from the statements of participants numbers 2 and 8 above. The challenge of access to capital was eloquently put as follows by participant number 3: "*the key thing in a merger and acquisition is capital. It is access to or control of capital which makes the particular deal and, that has been the short-coming of most modern BBBEE mergers and acquisitions".*

Not surprisingly, the use of this financial measure is not mentioned in any of the literature reviewed in chapter two. In voluntary M&As, the acquirer generally pays a premium for the acquisition of shares in the target company (Epstein, 2004; Krug, 2009). The literature on voluntary M&As has shown that whilst most M&As fail to achieve their pre-deal success forecasts and projections (Appelbaum *et al*., 2007; Cartwright & Schoenberg, 2006; Clayton, 2010; Kode *et al*., 2003) the shareholders of target firms generally fare better than those of acquiring firms

(Cartwright & Schoenberg, 2006; King *et al*., 2004), "often experiencing significant positive returns" (Haleblian *et al*., 2009, p. 470). To the contrary, the results of this study indicate that with regard to BBBEE M&As, acquirers, being BBBEE companies, expect to pay a discount for the acquired shares. In fact, the extent of the discount is so critical that whether or not a discount is provided is regarded as a measure of success of the transaction. Thus, this finding contradicts the literature on voluntary M&As which indicated that acquiring firms regularly pay premiums in order to acquire shares in target firms (Epstein, 2004).

These results raise an interesting question: Does it mean that with regard to BBBEE M&As, contrary to voluntary M&As, shareholders of acquiring firms do well than those of the target firms? This issue was not considered or measured in this study, nor could it have been, owing to the exploratory nature of this study. It would be interesting if future studies could look at this question. Such a conclusion would, however, be contrary to the literature on BBBEE M&As which has shown that the conclusion of BBBEE M&A transactions leads to significantly positive cumulative abnormal returns to shareholders of announcing firms (Jackson *et al*., 2005; Ward & Muller, 2008; Wolmarans & Sartorius, 2009).

In fact, Alessandri, Black, and Jackson (2011) found that "announcements of black economic empowerment deals at a discount results in positive abnormal shareholder returns for the participating firms" (p. 3). Does this, then, mean that unlike voluntary M&As, BBBEE M&A transactions result in a win-win outcome for both acquiring firm and target firm shareholders? Having regard to the literature cited earlier, it would appear, on the face of it, that this is indeed the case. Once again, this study did not (and could not) look into this issue. It is nevertheless, a topic which the researcher thinks should be looked at by future studies.

6.2.2.2. Value realisation

As indicated in Table 8, this measure was co-ranked number one with that of "cost of the transaction". Logically, this makes sense as one of the ways that a BBBEE firm would be able to realise value from a BBBEE M&A transaction, is influenced by the cost of the transaction which, as discussed in the immediately preceding section, is itself a function of the extent of the facilitation provided by the vendor, either though discount on the price at which shares in the target firm are acquired or the level of vendor finance at preferential interest rates (Sartorius & Botha, 2008).

Extract from Table 8

Rank	BBBEE M&A financial domain success measure	Frequency
1	Value realisation • Ability of the BBBEE party to realise value post the term of the funding of the transaction • BBBEE deal must be in the money	8

An interesting point to note is that this measure was not only mentioned by the participants from the BBBEE entities but also by participants in the study from non-BBBEE entities. Participant number 11 said, in relation to this measure: "*success [of a BBBEE M&A deal] has to be [when the transaction] is in the money...the BBBEE deal must be in the money post the deal*". This statement suggests positive goodwill by non-BBBEE firms in terms of which they all share the desire to see BBBEE M&As being successful. Although not conclusive, this could be interpreted as consistent with the studies by Sartorius and Botha (2008) and Juggernath *et al*. (2011) which found that most companies implemented BBBEE ownership schemes more as a commercial issue than a legal imperative. It is, however, noted that this was not specifically tested as it was not part of the research scope.

But, facilitation comes at a cost, as participant number 5 noted: "*at a point where we are now, you find that because you do want to have a bigger voice, people then expect you to pay in. You find that facilitation and discounts are disappearing quickly and it is then how you stand strong because if you still want to be facilitated or be given discounts then you know that those come with their own terms. If somebody is gonna facilitate you* (sic), *they will dictate to you their terms of the agreements that you are getting into...*".

Participant number 3 also shared a similar concern about the cost of facilitation to BBBEE entities. He expressed his concern as follows: "*there is a situation where existing owners of capital make room for a black entity, either to match and through some convoluted schemes, often with a huge degree of indebtedness associated with that, which is like we give but we've got this golden handcuffs that will keep you forever indebted to us".*

Nonetheless, it is clear that many participants still regard the ability of the target company to provide some level of facilitation, as an indication of the success of a BBBEE M&A transaction.

Similarly to the measure of the "cost of the transaction", the use of the extent to which the acquiring firm is able to retain or realise value post the funding of the transaction,

as a success measure, is not mentioned in the literature. To the contrary, literature, as indicated, indicates that voluntary M&As do not result in any positive returns for acquiring firm shareholders (Cartwright & Schoenberg, 2006; King *et al*., 2004). Whereas the literature on voluntary M&As has devoted a considerable amount of attention on how acquiring firm shareholders perform during a voluntary merger (Meglio & Risberg, 2011), it does not use that aspect as a measure of the success of an involuntary M&A transaction. It is, consequently, considered that this study adds to the literature by indicating other measures to assess the success of M&As, particularly BBBEE M&As.

6.2.2.3. Cash generation

Extract from Table 8

Rank	BBBEE M&A financial domain success measure	Frequency
4	Cash generation • Dividend payments or trickle dividend • Payment of management fees	6

Another financial domain success measure mentioned by 46 percent of the participants is that of cash generation. These participants indicated that they would measure this by the extent to which the BBBEE M&A transaction leads to the payment of dividends or so-called trickle dividends to the BBBEE entity. A trickle dividend is a kind of dividend usually payable in BBBEE M&A schemes to a BBBEE entity in order to provide such entity with some cashflow which can then be used to service any third party funding obtained by the BBBEE entity for the payment of the acquisition of shares. It is called trickle dividend because it is not calculated or determined in the same manner as the normal dividends payable by companies to their ordinary shareholders and it is usually smaller in quantum.

In addition to the payment of dividends (whether normal or trickle dividends), the participants were also concerned about the ability of the entity in which the BBBEE entity acquires shares, to pay a management fee. For these participants, a BBBEE M&A transaction will be regarded as a success if it generates cash for the BBBEE firm in one or both of the ways described above.

This is different from the literature on voluntary M&As. Although Meglio and Risberg (2011) found, as set out in Figure 1 above, that some scholars measure M&A performance, from a financial domain point of view, by looking at the liquidity dimension and using cashflow as an indicator, such an indicator is generally in respect of

dividends payable to all the shareholders of the merged entity. In the case of BBBEE M&As, the "cash generation" indicator, particularly the payment of trickle dividends or management fees, is only in respect of the BBBEE entity. Consequently, the finding of this study, on this aspect, adds to the literature but also slightly modifies it by expanding the content and meaning of this factor, as a success measure.

The use of this measure is to be expected as it is consistent with the two previous ones mentioned above ("cost of the transaction" and "value realisation"). As indicated, a major challenge of most BBBEE M&A transactions is the shortage of capital (Fauconnier & Mathur-Helm, 2008). And, as also indicated above, many of the BBBEE M&A deals are highly geared (Cargill, 2010; Hamann *et al*., 2008). In those circumstances, it is understandable that the ability to generate cash from entering into a BBBEE M&A deal would, from a BBBEE entity's point of view, be one of the paramount measures used to assess the success or otherwise of such deals. It is surprising though, that this measure was not ranked as highly as the two previous ones.

6.2.2.4. Social returns to the community

Extract from Table 8

Rank	BBBEE M&A financial domain success measure	Frequency
6	Social returns to the community	3

The other interesting financial domain success measure mentioned by some of the participants is that of the extent to which a company in which the BBBEE entity acquires equity, makes social returns or investments to or in the community in which it operates. This was described by participant number 7 as follows: "*does the company in which I am invested do some social initiatives that as a BBBEE partner, you can say that through my involvement, these are the things we've managed to do that were never being done before*".

It seems, certainly for those participants that mentioned this measure, that the financial returns they are looking for must not only inure for themselves, but also for the broader community in which the target company in question operates. As indicated, this measure was only mentioned by three participants and hence, on a rank order basis, is the last one. It is certainly not a measure mentioned in any of the literature for voluntary M&As as identified by Meglio & Risberg (2011). Thus, the use of this measure is a departure from the literature on voluntary M&As. It provides evidence as

will be shown later, of some of the differences between BBBEE M&As and voluntary M&As financial domain success measures.

An interesting question raised by the use of this measure is the extent of the link between BBBEE M&As and corporate social responsibility programmes. In this regard, Hamann *et al*. (2008) found that "many South Africans see BEE as a prerequisite for, and true manifestation of corporate social responsibility, with wide spread social benefits" (p. 27). To this extent, the use of this measure is consistent with the findings of Hamann *et al*.

It is understandable that BBBEE, as measured through the entire scorecard, embraces some aspects of corporate social responsibility (Alessandri *et al*., 2011; Jackson *et al.*, 2005; Wolmarans & Sartorius, 2009). But, in addition, the use of this measure indicates that for some participants, BBBEE M&As cannot be measured by only using traditional financial accounting measures. Such an approach is in line with the recommendations of the King Report (2009) which states that the general performance of companies must be assessed by not only having regard to narrow accounting measures but, by having regard to the so-called principles of triple bottom line. This finding suggests that for those participants, BBBEE M&As should be no different. Interestingly, latest research by Barnett and Salomon (2012) shows that firms with high corporate social performance have the highest corporate financial performance.

6.2.2.5. Comparison of the financial domain success measures identified in the literature and those mentioned in the study

As indicated in Figure 1, Meglio and Risberg (2011) conducted an extensive review of literature which looked at how researchers measure the success of voluntary M&As. They found that M&A performance generally tends to be measured along two domains: financial and non-financial domains. The measures referred to in the preceding paragraphs above, as extracted from Table 8, are the BBBEE M&As financial domain success measures. Table 14 provides a comparison between the results of this study and the literature on voluntary M&As regarding the measurement of the performance of BBBEE M&As.

An interesting observation about Table 14 is the extent of the dissimilarity between the financial domain success measures mentioned by the participants in this study and those identified by the literature on voluntary M&As. At first sight, it may be tempting to conclude that the results of this study, on this point, contradict the literature. However, a closer examination of the results of this study and the literature indicates that, far from contradicting the literature, this study actually adds to the literature (as more fully

explained below) regarding how to measure, financially, the success of a BBBEE M&A transaction.

As indicated, the literature has indicated that the reasons for firms to enter into voluntary mergers are many, varied and complex (Gaughan, 2011; Huyghebaert & Luypaert, 2010; Kode *et al*., 2003; Tanure *et al*., 2009). It must follow, therefore, that how one measures the success of a particular M&A transaction should depend, among others, on the initial reasons for entering into the deal. In any event, literature has already acknowledged that there are many ways to measure the success of voluntary M&As (Micka & Grobler, 2010; Stahl & Voight, 2008; Weber, Tarba, *et al*., 2011). Thus, whilst the results of this study in terms of the success measures for BBBEE M&As are, to some extent different from those mentioned in the literature, this is not necessarily a negative outcome. It, to a large extent, confirms the literature that M&As are entered into for various reasons (Kode *et al*., 2003) and thus, the measurement of their success would differ accordingly.

Importantly, this study adds to the literature by Jackson *et al*. (2005), Strydom *et al*. (2009), Strydom *et al*. (2011), Ward and Muller (2008) as well as Wolmarans and Sartorius (2009). Those studies considered the success of a BBBEE M&A transaction simply by looking at the market reaction of listed companies, measured through share price movements, to the announcement of such transactions. The one important limitation of those studies is that they related only to listed companies. Whilst useful, they did not provide an answer to how one measures the success of BBBEE M&A transactions with regard to unlisted companies. The financial domain success measures mentioned in this study, as set out in Table 8, are applicable to both listed and unlisted companies. Thus, this study adds to the body of knowledge on how to measure the performance of a particular BBBEE M&A transaction.

Table 14: Comparison of the financial domain success measures for BBBEE M&As and voluntary M&As

BBBEE M&As financial domain success measures mentioned in the study	**Voluntary M&As financial domain success measures identified in the literature as summarised by Meglio & Risberg (2011)**
Cost of transaction • Extent of facilitation provided by the investee company • Level of discount • Vendor financing • Nature and type of 3rd party funding terms	Market performance • Risk (eg Jensen's Alpha, Beta) • Market value (CAR, CAAR, RSH, APD, CPD)
Value realisation • Ability of the BBBEE party to realise value post the term of funding of the transaction • BBBEE deal must be in the money	Accounting performance • Profitability (ROA, ROI, ROS, Net income) • Growth (eg sales growth) • Leverage, liquidity and cashflow (eg cashflow)
Pre-defined hurdle rates • Internal rate of return • Net asset value growth • Return on equity • Return on investment • Revenue growth • Income statement measures • Earnings-base measures	
Cash generation • Dividend payments or trickle dividend • Payment of management fees	
Synergy realisation through cost synergies	
Social returns to the community	

Source: compiled by the researcher

This table provides a snapshot of the similarities and the differences between the financial domain success measures for BBBEE M&As and voluntary M&As as discussed above. The key differences are in relation to the use of the following financial domain success measures for BBBEE M&As: (i) cost of the transaction; (ii) value realisation; (iii) cash generation; and (iv) social returns to the community. The meaning and extent of these measures and how they relate to the literature has been fully discussed above.

On the other hand, it can be observed from Table 14 that there are also certain similarities between the BBBEE M&As financial domain success measures and the voluntary M&As financial domain success measures. Megilo and Risberg's (2011) review of literature on voluntary M&As showed that the two primary financial domain success measures used to assess the performance of voluntary M&As are (i) accounting performance measures; and (ii) market performance measures. These are virtually the same as those set out in Table 14, in the column of BBBEE M&As financial domain success measures. These measures are described in Table 14 as "pre-defined hurdle rates" and "synergy realisation".

In the researcher's view, the following observations are worth noting with regard to Table 14. Firstly, there are certain financial domain success measures which were mentioned by the participants in the study because they are peculiar to BBBEE M&As. As set out above, these relate to the (i) cost of the transaction; (ii) ability of the BBBEE party to realise value post the transaction and ; (iii) the ability of the deal to generate cash for the BBBEE entity. These measures are a necessary result of the peculiar nature of BBBEE M&As. Secondly, there are those generally used accounting and market performance measures (Meglio & Risberg, 2011). These are the same between voluntary and BBBEE M&As. Lastly, there is a triple bottom line measure; that is, the extent to which the activities of the entity concerned benefit the communities in which that entity operates. This last measure suggests that (at least some of) the participants agree that company performance must be assessed against broad criteria which goes beyond just accounting measures (King Report, 2009).

6.2.3. Non-financial domain success measures

Whilst this study contradicts, in some respects, the literature and adds to it in other respects, it also confirms the work of Meglio and Risberg (2011) that, like voluntary mergers and acquisitions, the success of BBBEE M&A transactions is measured not only using the financial domain success measures but also using non-financial domain success measures.

This point was made clear by participant number 5 who said that for them, measuring whether or not a particular BBBEE M&A transaction is successful "*is about economics but, with BBBEE, it is much more than just the economics*". This was also the view expressed by participant number 7 who said that "*it is important to show that the BBBEE M&A deal has resulted in more than the financial returns*". Participant number 1 also made it clear that the success or otherwise of a BBBEE M&A transaction is measured beyond the financial domain success measures when he said that for him, such success is measured by "*the extent to which the transaction results in an African tapestry of peoples and cultures*". Yet another participant, number 8, indicated that for them, the success of a BBBEE M&A transaction is measured by the extent to which the BBBEE company succeeded in "*helping the staff of the investee company to see the world differently*".

As with the financial domain success measures, the researcher provides, in Table 15 below, a comparison of the non-financial domain success measures mentioned by the participants in the study and those derived from the literature regarding voluntary M&As.

Table 15: Comparison of the non-financial domain success measures for BBBEE M&As and voluntary M&As

BBBEE M&As non-financial domain success measures mentioned in the study	**Voluntary M&As non-financial domain success measures identified in the literature as summarised by Meglio & Risberg (2011)**
Relationship and trust	Operational performance • Marketing (eg market share) • Innovation (eg number of patents) • Productivity (eg cost synergy)
Transformation	Overall performance • Success (eg attainment of M&A goals) • Survival (eg divestiture)
Strategy	
Culture fit / common values / shareholder alignment	
Operational involvement by BBBEE partner	
Level of community investment / SRI	
Transaction structure	
Market share	
Operational efficiencies	
Competencies	
Employment creation	
Commercial sustainability	

Source: compiled by the researcher

What is clear from this table is the extent of the dissimilarity between the non-financial domain success measures used for BBBEE M&As and those used for voluntary M&As, as mentioned in the literature by Meglio and Risberg (2011). The measures are virtually all different with only a few similarities. A particular point to note about the non-financial domain success measures used for voluntary M&As, as set out in Table 15 above, is that all of them are relatively tangible measures which arguably, can fairly easily be quantified. On the other hand, some of the BBBEE non-financial domain success measures set out in Table 15 would, arguably, be fairly difficult to quantify.

For instance, under the theme or measure of transformation, participant number 1 commented that for them, success of a BBBEE M&A transaction is measured by the "*extent to which the transaction results in an African tapestry of peoples and cultures*". But, the participant did not elaborate further as to when or how one would measure such an outcome. This line of thinking was expressed as follows by participant number 8 who indicated that for them, the success of a BBBEE M&A transaction is measured by the extent to which the BBBEE company succeeded in "*helping the staff of the investee company to see the world differently".*

Another participant, number 7, said that for them, the success of a BBBEE M&A transaction is measured by "*the extent to which the BBBEE M&A transaction results in the creation of a company that is truly South African...the extent to which this company espouses the values of botho...*". Once again, this would probably be difficult to quantitatively measure accurately. When asked how they would measure such a variable, the participant said that "*one would have to rely on certain proxy measures such as black staff retention rate; has society's perception of the company changed positively as a result of the merger, etc...*"

Thus, the BBBEE non-financial domain success measures set out in Table 15 above can be described as consisting of tangible and intangible measures. This point was confirmed by participant number 11 when, in response to research question one, said: "*with regard to BBBEE measures, you have to work with the tangibles and intangibles*". Some of the intangible BBBEE M&A non-financial domain success measures are those entitled (i) transformation; (ii) relationship and trust; and (iii) culture fit. It is important, though, to note that the label of 'intangible' is not used herein to signify that these measures are not as important as the other ones. This label is merely used to indicate that those measures may not be easily quantifiable.

6.2.4. Conclusion regarding research question one

The results of this study in respect of research question one can be summarised as follows:

- Firstly, they support the literature that there are many and diverse reasons for firms to enter into M&As (Gaughan, 2011; Kode *et al*., 2003).
- Secondly, they support the literature that there are many ways to measure the success of a merger or acquisition transaction (Meglio & Risberg, 2011).
- Thirdly, they confirm the literature that M&A performance is generally measured using financial or non-financial measures (Cartwright & Schoenberg, 2006; Meglio & Risberg, 2011).
- Fourthly, they add to the literature on voluntary M&As by identifying financial and non-financial measures that can specifically be used to measure the success of BBBEE M&As;
- Fifthly, they add to the literature on BBBEE M&As (Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009)

by identifying financial and non-financial measures that can be used to measure the success of BBBEE M&As for both listed and unlisted companies;

- Lastly, they contradict the literature with regard to the payment of premiums or discounts for share acquisitions (Epstein, 2004).

In short, the results of the study do answer research question one. But, the results of the study make an important contribution to the literature by identifying specific financial and non-financial domain measures which can be used to assess the success of BBBEE M&As. These are set out in summary form in Table 16 below.

Table 16: BBBEE financial and non-financial domain success measures according to the study

BBBEE M&As financial domain success measures mentioned in the study	**BBBEE M&As non-financial domain success measures mentioned in the study**
Cost of transaction • Extent of facilitation provided by the investee company • Level of discount • Vendor financing • Nature and type of 3rd party funding terms	Relationship and trust
Value realisation • Ability of the BBBEE party to realise value post the term of funding of the transaction • BBBEE deal must be in the money	Transformation
Pre-defined hurdle rates • Internal rate of return • Net asset value growth • Return on equity • Return on investment • Revenue growth • Income statement measures • Earnings-base measures	Strategy
Cash generation • Dividend payments or trickle dividend • Payment of management fees	Culture fit / common values / shareholder alignment
Synergy realisation through cost synergies	Operational involvement by BBBEE partner
Social returns to the community	Level of community investment / SRI
	Transaction structure
	Market share
	Operational efficiencies
	Competencies
	Employment creation
	Commercial sustainability

Source: compiled by the researcher based on Table 14 and Table 15

6.3. What factors are necessary to ensure the success of BBBEE mergers and acquisitions?

6.3.1. Introduction

The main thrust of this research question was to examine the factors that are necessary for the success of BBBEE M&As. The motivation for this research question emanated from the literature. Fauconnier and Mathur-Helm (2008), Kruger (2011) as well as Patel and Graham (2012) lamented the fact that there is a dearth of academic studies on what actually makes BBBEE M&As successful. This research question sought to answer their call. A list of those factors is set out in Appendix 4. This list is then arranged in a thematic format as set out in Table 10. Those factors identified by the participants as being uniquely required for BBBEE M&As are set out in Table 13.

Following on the literature, this report grouped all the factors of success as listed in Table 10, according to the three phases of a typical voluntary M&A transaction. These phases are pre-merger, during-merger and post-merger (Gaughan, 2011). The details of what each of these phases entail are set out in Figure 2, adapted from the work of Hoang and Kamolrat (2007). Based on that approach, these factors are listed in Table 11 above.

Whilst it is clear from Table 11 that a typical BBBEE M&A transaction broadly follows the phases of a typical voluntary M&A transaction, the factors that are required in respect of each phase are, however, in some respects, different from those of a typical voluntary M&A transaction. Further, two of the success factors stated in Table 11 were mentioned by the participants as cross-cutting and applicable to all the phases of a BBBEE M&A transaction. These factors are communication and leadership.

Accordingly, Table 17 below provides a comparison of the factors identified in the literature in respect of each phase of a typical voluntary M&A transaction against those mentioned in the study as being applicable to BBBEE M&A transactions. This table is compiled from Table 2, Table 10, Table 11 and Table 13. It is divided into three columns: The first column sets out the success factors for M&A transactions as identified from the literature review. The second column sets out the success factors which are common between those factors identified in the literature and also mentioned in the study. The third column sets out only those factors mentioned in the study and not identified from the literature review.

The schematic representation of the discussion of the results is set out in Figure 5 below.

Figure 5: Research question two discussion flow chart

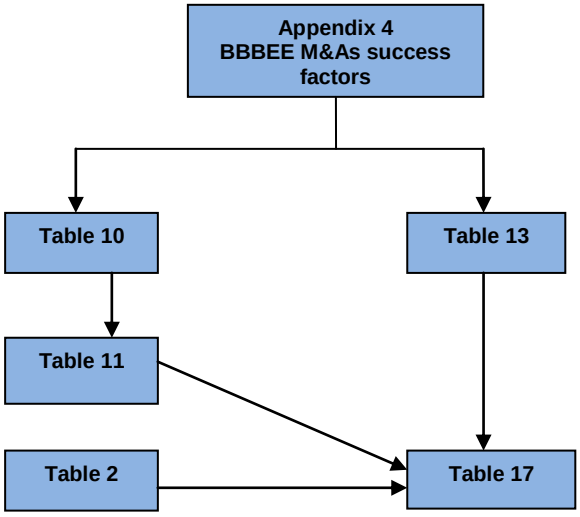


Table 17: M&A success factors according to the literature and the study per phase of a merger

Phases of a M&A	Literature review only	Literature review & study	Study only
Pre-merger	❖ In planning for a merger, it is important to take a system approach, considering all aspects and phases of a merger	❖ Planning / Corporate level strategy ❖ Due diligence ❖ Establish a multi-disciplinary team to execute the merger process	❖ Own equity contribution ❖ In house capability to assess the deal ❖ Transaction rationale ❖ Discount on the market value of the shares ❖ Facilitation by the vendor ❖ Vendor finance
During-merger	❖ Consider cultural factors of the negotiating teams	❖ Negotiation ❖ Transaction structure ❖ Leadership	❖ Alignment of expectations ❖ Clearly define deliverables
Post-merger	❖ Post merger integration must form part of the planning phase of a merger ❖ Carefully consider speed of integration, noting that each case must be treated differently based, among others, on the size of the merger, complexity of the transaction and the nature and extent of the required changes ❖ The level of cultural integration must be carefully considered: assimilation, bending or pluralism ❖ Do not always aim for cultural assimilation as cultural differences may in fact be a source of competitive advantage ❖ Put in place a proper organisational development intervention process ❖ The merger process requires careful and integrative leadership	❖ Culture ❖ Communication	❖ Active governance ❖ Operational involvement ❖ Relationships management ❖ Transformation ❖ Social investment

Source: compiled by the researcher

At a glance, it is clear from Table 17 that there are a number of important differences between the factors identified in the literature review required for each phase of a typical voluntary M&A transaction, and those mentioned in the study. It is, however, also clear that there are areas of convergence in the factors identified in the literature and those mentioned in the study.

The next sections of this report discuss each of these factors, showing areas of convergence and divergence between the literature review and the results of the study. The discussion follows logically according to each phase of a typical M&A transaction.

6.3.2. Pre-merger phase:

This section discusses the factors of success identified for the pre-merger phase, starting with those common between the literature and the study and ending with a discussion of those either only mentioned in the study or only identified in the literature.

6.3.2.1. Common factors between the literature and the study

Table 17 identifies three common factors between the literature and the study. These are: (i) planning / corporate level strategy; (ii) due diligence; and (iii) the need to establish a multi-disciplinary team to execute the deal. In the discussion that follows below, the latter factor is discussed in conjunction with the issue of due diligence. As will become clear from the ensuing discussion below, the reason for this approach follows partly from the literature and, in the researcher's view, it is appropriate to discuss those two factors together as, logically, the latter factor qualifies the former factor by explaining the nature of the team that must undertake the due diligence investigation and execute the deal.

6.3.2.1.1. Planning / corporate level strategy

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
2	Planning / Corporate level strategy	9

The first area of convergence in this phase of an M&A transaction between the success factors identified in the literature review and those mentioned in the study, relates to the importance of doing proper planning and having a clear corporate level strategy before embarking upon any BBBEE M&A transaction (Chapman, 2004). This finding confirms the views of Tanure *et al*. (2009) that any company considering a merger must have a good and compelling reason to do so. It also confirms and supports studies by Coffey *et al*. (2002) and Gaughan (2011) that such reason must be informed by the company's corporate level strategy.

The results of this study, on this point, support Ireland *et al*. (2011) that a good corporate level strategy must start with a review of a company's strategic inputs which consist of the external environment. As Ireland *et al*. stated, such external environment is made up of the general socio-political and economic environment. Support for this approach was aptly captured by participant number 3 when he said "*any merger and acquisition happens within a particular context...there is the external and internal*

context. A thorough understanding and appreciation of what those contexts are is an absolute prerequisite for any management".

Many participants indicated that one of the factors that affect the success of BBBEE M&As is whether or not the BBBEE entity entering into such a transaction has a clear corporate level strategy. This factor was rated second highest in terms of the thematic factors of success as set out in Table 10. The importance of this factor was articulated by participant number 7 as follows: "*as a BBBEE partner, define and understand the sector you wanna (sic) get into, do a thorough research; make sure you fully understand that sector's weaknesses, cyclicality, the market that business operates in and so forth*...". Another participant, number 8 put it as follows: "*there has to be a strategy because otherwise you will have a shotgun approach in terms of which whatever you are able to hit goes*". The identification and ranking of this factor of success makes eminent sense. It would, indeed, be perplexing in the extreme if BBBEE entities were entering into BBBEE M&As without having a very clear strategy of how such a transaction would contribute in achieving their overall strategic objective.

But, participant number 9 was, however, critical and sceptical of this. This participant felt that BBBEE entities do not go through a proper planning process before embarking upon BBBEE M&As. Her view was expressed as follows: "*there is a lot of talk about intention, but no clearly thought out strategy".* She went on to say that *"the difficulty we have with BBBEE M&As, as opposed to other M&As, is who the actual drivers of M&As are. If you look at traditional M&As, it is actually quite often driven from an operational side...but with BBBEE M&As, we've turned it on its head, in the sense that it is driven from the front end by the corporate financiers*".

The point made by this participant is actually not a negation of the importance of doing a proper planning and having a good corporate level strategy before embarking upon a BBBEE M&A transaction. Rather, this participant was critical that most BBBEE entities do not do that, when in fact, they should. Her criticism of the approach BBBEE companies follow in doing BBBEE M&As supports Nguyen & Kleiner (2003) who found that part of the reasons for the failure of M&A transactions is that too often, insufficient resources are allocated to establishing the strategic objectives of the transaction. It is the researcher's view that the point made by this participant reinforces the literature that "the first step in the creation of a successful integration is the creation of a compelling business case for the merger" (Trompenaars & Asser, 2011, p. 25).

6.3.2.1.2. Due diligence

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
3	Due diligence	7

Another area of convergence, in this phase of a merger, relates to the importance of conducting a comprehensive due diligence before embarking upon any M&A transaction. This finding confirms the literature that having established a good corporate level strategy for embarking upon a merger, the next step in the planning process must be a systematised assessment of the firm to enter into a merger with (Tanure *et al*., 2009). This factor was ranked third highest in the thematic listing and ranking of BBBEE M&A success factors as set out in Table 10.

Participant number 2 expressed this point as follows: "*due diligence is such a critical component of the exercise*" to which participant number 1 added "*I think due diligence is essential in any merger or acquisition*". According to participant number 7, "*it helps you to identify potential landmines*". This was confirmed by participant number 8 who added that it is not only important to conduct comprehensive due diligence but: "*you must make sure that you have the right skills to actually be able to assess whatever information you are able to get from the data room and through interaction with management*". This last statement supports the literature that membership of the due diligence team must be broad enough to include specialists from various organisational disciplines such as human resources, operations, information technology and so forth (Marks & Mirvis, 2001; Nguyen & Kleiner, 2003; Quah & Young, 2005).

Importantly, the results of the study support the literature that such a due diligence investigation must not only concentrate on the financial aspects of the merger but must be a comprehensive process that includes other non-traditional due diligence focus areas such as organisational fit (Badrtalei & Bates, 2007; Epstein, 2004; Horwitz *et al*., 2002; Jayesh, 2012; Trompenaars & Asser, 2011 and Weber, Tarba, *et al*., 2011).

This point was put by participant number 10 as follows: "...*look at the commercial side of things...look on a full legal due diligence, legal agreements, tax, people issues and so forth. Before* [you] *do a deal, ...talk to the management of the company to understand whether there is a meeting of the mind and what it is that they want to achieve and so forth*". Participant number 7 indicated that: "*the other critical element is doing background screening of the partners you intend to get involved with..what type*

of people do I want to engage with?". For this participant such a comprehensive due diligence process "*also helps in knowing the personalities, which can be useful in dealing with interpersonal issues during the negotiations".*

This statement supports the literature that cultural differences play an important role during negotiations (Tanure *et al*., 2009). The finding of the study, on this point, also adds to the literature as the participant saw the importance of due diligence not only in relation to the financial and other aspects of the deal but, also as a tool that can be used to get to understand the inter-personal relationship dynamics that could be at play later during the negotiations (Weber, Belkin, *et al*., 2011). It is the researcher's view that this finding is important not only because it supports the literature, but also because it clearly indicates to BBBEE M&A practitioners, how such a process could assist later in the negotiations for the structuring of the deal. Further, as one participant indicated, it is an important factor in ensuring the success of a BBBEE M&A deal because if there are things that the due diligence brings up, the parties are then able to plan for how to deal with such issues so that, ultimately, there could be no surprises about the nature of the deal.

6.3.2.2. Divergent factors between the literature and the study

As indicated earlier, Table 17 also sets out the factors of success which were mentioned in the study but not identified in the literature. These are (i) transaction rationale; (ii) own equity contribution; and (iii) the amount of discount, facilitation or vendor finance provided. In addition, the need for a system approach was identified in the literature but not mentioned in the study. These factors are discussed in detail below. The issues of discount, facilitation or vendor finance provided are discussed together with that of own equity contribution. Not only are these factors logically related but, as explained in chapter five and in the discussion in relation to research question one above, and, as further explained herein below, these factors do not only influence the transaction structure but also have an impact on the value that the BBBEE entity is able to realise from the transaction. In fact, many of the participants discussed these factors together signifying that for them, they are interrelated.

6.3.2.2.1. Transaction rationale

One of the factors mentioned in the study as necessary for the success of BBBEE M&As is the rationale for the transaction. As will be more fully explained below, this factor must be distinguished from that of having a clear corporate level strategy. This factor is not specifically identified in the literature as a success factor for voluntary

M&As. What the literature does, however, is to indicate that the reasons for firms to embark upon mergers and acquisitions are many and varied (Cartwright & Schoenberg 2006; Cox, 2006; Gaughan, 2011; Horwitz *et al*., 2002; Huyghebaert & Luypaert, 2010; Kode *et al*., 2003; Tanure *et al*., 2009). In other words, the literature makes mention of the reasons why firms embark upon M&A transactions without necessarily drawing a link between such a reason and the success or otherwise, of an M&A transaction (King *et al*, 2004).

To the contrary, the participants in the study specifically indicated that with regard to BBBEE M&As, the rationale for the transaction plays a crucial role in determining the success or otherwise of such a transaction. In other words, the participants draw a link between the rationale for firms to enter into BBBEE M&As, and the success or failure of such transactions. This factor was actually ranked third highest in Table 10 and was ranked the second highest in Table 13.

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
3	Transaction rationale	7

Extract from Table 13

Rank	BBBEE M&A success factor	Frequency
2	Transaction rationale	6

The link between the rationale for entering into a BBBEE M&A transaction and its success was aptly described by participant number 12 when he said that according to him, there is a distinction between those companies that enter into BBBEE M&A transactions simply because "*we've been forced by legislation to do it, so let's get it out of the way*" and those that say "*let us not just do it for the sake of empowering a previously disadvantaged investment group, but, let us see what operational benefit it can bring*...". According to participant number 7 "*the initial rationale or attitude for doing the deal plays a crucial role...a company that does a BBBEE deal simply to tick a box will not have a commitment to transformation...and this talks to the sustainability of the transaction*". As stated by participant number 1 "*BBBEE* [must not] *just be positioned as a compliance thing* [but] *put it at a level of it being a national imperative*". For participant number 3, it is "*absolutely important to have a very sound ethical basis for the transaction*".

These comments clearly indicate that, for at least 54 percent of the participants, with which the researcher agrees, the rationale for the transaction or the attitude with which the transaction is done, has a bearing on the success or sustainability of that transaction. These results add to the literature which had simply identified the reasons for voluntary M&A transactions (Huyghebaert & Luypaert, 2010; Kode *et al*., 2003). It also adds to the study by Sartorius and Botha (2008). In that study, Sartorius and Botha conducted a survey among the JSE listed companies to understand the variables that influence a successful equity ownership transaction. As part of the study, the respondents were asked to indicate their reasons for implementing a BBBEE ownership initiative. Various reasons were given by the respondents which are set out in Table 3.

Sartorius and Botha (2008) did not, however, go further to suggest that there is a relationship between the rationale for entering into a BBBEE ownership scheme and the performance of such a scheme. In fact, Sartorius and Botha recommended, as an area of further research, a study to "establish how many BEE transactions have failed before being formally announced and what variables made BEE transactions succeed. These variables could be macro-economic factors, access to funding, *company attitudes* [emphasis added] and the availability of suitable BEE partners" (p. 450). The results of this study directly answer Sartorius and Botha's proposition regarding the role that the rationale for the transaction could have on the success of a BBBEE M&A transaction by indicating that there is, indeed, a relationship.

Whereas the participants drew a link between the rationale for the conclusion of a particular BBBEE M&A transaction and its success or failure, the probability of such a link could, however, not be tested given the exploratory nature of this study. It may, therefore, be important for future studies to quantitatively assess whether or not there is any correlation between the rationale for entering into a BBBEE M&A transaction, and the success of such a transaction.

Whilst there is, as yet, no empirical evidence that those BBBEE M&As done purely because it is a legislative requirement to do so are less likely to be successful than those done because it is a business imperative to do so (Juggernath *et al*., 2011), it is, nevertheless, the researcher's view that it is not outrageous to make such a proposition. Intuitively and logically, this point makes sense. This is more so when it is borne in mind that the reasons for firms to embark upon M&A transactions include synergistic and non-synergistic and /or strategic reasons (Kode *et al*., 2003).

6.3.2.2.2. Own equity contribution / discount / facilitation / vendor finance

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
11	Own equity contribution	4

Extract from Table 13

Rank	BBBEE M&A success factor	Frequency
1	Funding Structure • Discount on the market value of the shares • Facilitation • Vendor financing	11

Another factor of success, located within the pre-merger phase, mentioned by the participants but not identified in the literature, is whether or not a BBBEE party is able to contribute its own capital or a portion thereof for the acquisition of shares in the target company. In the researcher's view, it is not a surprise that this factor was only mentioned in the study but not identified in the literature as one of the success factors for BBBEE M&A transactions. It is unique to the BBBEE M&A transactions. This is because many BBBEE M&A transactions are done through some level of facilitation provided by the vendor (Alessandri *et al*., 2011; Sartorius & Botha, 2008). Such facilitation can take the form of vendor financing or share acquisition at a discount either to the market value or intrinsic value of the business (Sartorius & Botha, 2008). This point appears clearly from the results set out in Table 13, which, as would be recalled, sets out those factors which the participants said that are only applicable to BBBEE M&A transactions.

Although somewhat similar, this factor of success must be distinguished from those identified in the study by Haleblian *et al*. (2009). In that study, the authors found that one of the moderators which impact M&A performance is whether or not the acquisition was done at a discount. In this regard, other studies had also found that in many M&A transactions, acquirers generally pay premiums to acquire targets, thus resulting in shareholders of target firms deriving better value from acquisitions than do shareholders of acquiring firms (Cartwright & Schoenberg, 2006; King *et al*., 2004). But, in all those transactions, there is not a debate about the ability of the acquirer to provide funding for the transaction it wishes to enter into or to be facilitated in order to acquire the shares in the target firm.

On the other hand, many BBBEE companies do not have the capital required to acquire shares in the traditional non-BBBEE companies. Consequently, such

transactions are generally done at a discount in order to "facilitate" the ability of the BBBEE company to make the acquisition (Sartorius & Botha, 2008). It is within that context, that many participants in the study mentioned the ability of the BBBEE entity to provide its own equity as a necessary factor for the success of BBBEE M&A transactions. The ability of the BBBEE entity to provide some level of own capital for the acquisition of shares in the target company, coupled with the levels of discount provided, impacts on the level of gearing of the transaction and ultimately, impacts on the value that the BBBEE partner is able to derive from the transaction.

This point was made clear by participant number 2 in her response to research question one: "*I measure the success of a BBBEE M&A transaction post the acquisition and post the life of the investment has been able to pay off their obligations and also realise the value whether that is in a form of cash that they are able to sell a component of the shares or whether just through the value that's been created*". Another participant, number 11, put it as follows: "*success [of a BBBEE M&A deal] has to be [when the transaction] is in the money...the BBBEE deal must be in the money post the deal*". Although that comment was made in relation to research question one, the participant clearly indicated that it is also a relevant factor for the purpose of research question two. Indeed, that is confirmed by the results of Table 13.

It is suggested that it may be an interesting research topic, quantitatively to examine whether there is any relationship between the level of own equity contribution provided by a BBBEE entity during a BBBEE M&A transaction and, the level of facilitation provided by the vendor, whether through an upfront discount on the share price or the amount of vendor financing provided, and the value eventually derived by BBBEE entities from the transaction. It may, in fact, also be interesting to look at whether the type of facilitation makes any difference in the value eventually derived?

6.3.2.2.3. Need for a system approach

The literature stipulates that firms must take a system approach to the process of acquiring and integrating firms (DiGeorgio, 2002; Micka & Grobler, 2010). This factor was not specifically mentioned by the participants in the study. It is the researcher's opinion that the reason for this divergence could probably be attributed to the fact that, as indicated in relation to the results of research question three, as set out in Table 12, most participants believe that BBBEE M&As are different from voluntary M&As. One of the differences between the two transactions is that generally, most BBBEE M&As do not involve the process of post-merger integration, for which this factor is considered particularly necessary within the context of voluntary M&As. It is also possible that the

participants did not mention this factor given that all of them are practical business people and practitioners in the BBBEE M&A space and thus, may not be inclined to theoretical frameworks as mainly used by academics and authors.

As indicated in chapter two, the process of integration of the two merging firms has been cited as a critical phase of the whole merger process (Nguyen & Kleiner, 2003) as the opportunity for failure is apparently greatest during that process (Appelbaum *et al*., 2007). Generally, BBBEE M&As take the form of share acquisition in another firm rather than the 'full-on' merger of two firms. And, in many cases, a BBBEE partner acquires a minority stake in the target firm (Cargill, 2010). Thus, the results of the study, on the importance of taking a system approach to any merger process, are different from the literature. Such difference does not, however, mean a contradiction of the literature. It is, in the researcher's view, in addition to the proposed reason above, simply a function of the fact that, as most participants indicated in Table 12, the two transactions are different in nature and thus, require different factors for their success.

6.3.3. During merger phase

This section discusses factors of success identified for the second phase of a typical merger process, ie, "during-merger" phase. As with the pre-merger phase, these factors are discussed first, according to those factors identified as common between the literature and the study and, finally, those that are different between the literature and the study.

6.3.3.1. Common factors between the literature and the study

As with the pre-merger phase, a number of common factors were identified between the literature and the results of the study for this phase of a merger process. These are (i) negotiation and, (ii) transaction structure. Although mentioned only in the study, and only in relation to this pre-merger phase, the issue of having "own in-house capability to assess deals" is discussed together with the theme of negotiations as the two logically makes sense to group together here. The reason for this is that the question of having own capability to assess the deal impacts on the nature and quality of the negotiations a BBBEE party is able to embark upon and that will, eventually, have an impact on the transaction structure.

6.3.3.1.1. Negotiation / in-house capability to assess and structure deals / transaction structure

Extracts from Table 10

Rank	BBBEE M&A success factor	Frequency
9	In-house capability to assess and structure deals	5

Rank	BBBEE M&A success factor	Frequency
14	Negotiation	2

Although identified as a common factor between the literature and the study, the issue of negotiations as a particular success factor was only mentioned by two participants in the study and hence, it is ranked a lowly number 14. However, this factor has been identified by the literature as critically important (Weber, Belkin, *et al*., 2011) for the success of voluntary M&As and in the researcher's view, also for BBBEE M&As. The fact that it is mentioned, albeit by only two participants during the study, supports the literature. Importantly, the participants confirmed the views of Quinlan (2012) that it is important to have a negotiating team that is properly skilled in negotiations. Participant number 5 put it as follows: "*negotiations are key; make sure you've got good negotiators on your side*". Participant number 2 commented that it is important not only to have good negotiators but also certain key principles to guide the negotiations. She put it as follows: "*I think the other thing that you need is to have a house rule on certain key principles... [so that] they have a clear knowledge of what are some of the key parameters that work for us...*".

The researcher's view is that the point made by participant number 2, that is, relating to the importance of having certain in-house key principles, is critical. Each BBBEE entity, like any other non-BBBEE entity, has its own corporate level strategy and strategic objectives. Consequently, each of them would have its own expectations of what to derive from any BBBEE M&A negotiations. Hence, the researcher agrees with participant number 2 that it is important that a BBBEE entity must have certain "house views / principles" that can serve as a guide for the negotiators. It is the researcher's view that such an approach will empower the negotiating team to know what the entry and exit points of negotiations are.

Quinlan's (2012) negotiation preparation framework states that one of the attributes of a skilled and expert negotiator is to determine one's realistic position, entry points, exit points and bargaining points. It is the researcher's view that one can only effectively do

that, when one knows what it is their company expects from particular negotiations; what issues are negotiable and which ones are not and with regard to the negotiable issues, what the 'bargaining range' is (Quinlan, 2012). This, the researcher believes, is possible only when a BBBEE entity has predetermined its own in-house transaction principles which are then communicated to, known and understood by the negotiating teams.

As indicated above, the issue of the importance of negotiations is discussed herein together with the factors of having in-house capability to assess and structure deals and the issue of transaction structure as that is how the participants discussed these issues but also because these issues are logically related, as explained earlier. In this regard, there was a bit of divergence between the participants who felt that it is important to have own in-house capability to assess and structure the deal vis-a-vis those that felt that BBBEE companies must engage external advisors to assist in the negotiation and structuring of the deal. The table below is an extract from Table 10 on this issue.

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
9	In-house capability to assess and structure deals	5

Thirty-eight percent of the participants indicated that it is important for a BBBEE entity to have its *own* [emphasis added] in-house capability to assess and structure the BBBEE M&A deals whilst some indicated that it is important to have external advisors. That notwithstanding, there was no divergence about the importance of being able to assess and structure deals. Where there was a bit of divergence, was on the question of whether such capability must be based in-house or sourced externally.

It is the researcher's view, however, that on closer examination, such divergence as might be between the participants on this point, is more apparent than real. It would appear that what the 38 percent of the participants who felt that it is important to have own in-house capability to assess and structure deals were emphasising was that "*advisors must not be there to lead the deal but rather to advice*" as participant number 2 put it; to which participant number 8, added: "*it is important that as a BBBEE company, you have the right skills actually to engage with the third parties*". This was also confirmed by participant number 7 who said: "*if you rely on external parties to negotiate for you, it weakens you and that becomes a risk to the success of your transaction*".

Indeed, the researcher's view is that it may not be possible nor practical, in all instances and at all times, to have the requisite skills, in house, to assess and structure all kind of deals given the complex nature of the business environment. Neither would it be advisable permanently to have such skills internally all the time. Business transactions change all the time as dictated to by the requirements of legislation, tax, accounting treatment and other economic and risk factors. To try and amass all these skills in house all the time, may not only be impractical and undesirable but may actually be reckless and value destroying in the long-run. Consequently, the researcher agrees with the sentiment expressed by various participants, as indicated above, that what is important is that such advisors as one may have, must not be allowed to 'run with the deal' to the total exclusion of the BBBEE party.

6.3.3.1.2. Culture awareness during negotiations

From Table 17, it appears, at first glance, that there is a divergence between the literature and the study on the issue of sensitivity to differences in cultural approaches during the negotiations. This issue is specifically identified in the literature (Tanure *et al*., 2009; Weber, Belkin, *et al*., 2011) but was not explicitly mentioned by the participants. It is the researcher's view, however, that this is probably more a function of form rather than substance. Cultural alignment and awareness as a necessary factor for the success of BBBEE M&As is explicitly mentioned by the participants and is in fact, ranked number one in Table 10. And, as appears from Table 17, it is a point of convergence for the "post-merger" phase. It is the researcher's view that its specific omission by the participants, during this phase and particularly during negotiations, has more to do with the fact that the participants were not explicitly prompted about it. Given that the issue of culture was not only ranked the highest but was also mentioned by so many participants, it is unlikely that the participants would not recognise its significance during negotiations.

6.3.3.2. Divergent factors between the literature and the study

The two factors which were mentioned by the participants during the study but not identified in the literature review relate to the need to align the expectations of all parties to a merger and to clearly define the deliverables expected from each. These two factors are discussed together in details below. The reason for discussing these factors together appear more fully in the ensuing discussion below. In a nutshell, it is because the one follows logically from the other in this way: having clearly aligned the expectations of the parties, it should be possible for them clearly to define the

deliverables expected from each other. These factors were mentioned by only four participants.

Alignment of expectations / clearly defined deliverables

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
11	Alignment of expectations / clearly define deliverables	4

A factor which came up fairly strongly during the study but not mentioned in the literature, is that of alignment of expectations between the key partners of the merging firms. This point was poignantly put by participant number 11 as follows*: "I think historically where probably things have gone wrong, has been miscommunication of expectations on either side. I think where you can have a meeting of expectations; I think that is one of the critical elements of success. That is, have an understanding of what the expectations of the partners are and then obviously matching and meeting those expectations; that to me is absolutely critical"*

What the literature does identify, is that any company contemplating a merger must have a good and compelling reason to do so (Gaughan, 2011; Ireland *et al*., 2011). Further, the literature proceeds to identify some of those reasons, which include, the need for increased market power (Akdogu, 2009), overcoming entry barriers (Ireland *et al*., 2011), avoiding the cost of new product development and achieving increased speed to market (Makri *et al*., 2009) and increase diversification (Lee & Lieberman, 2010). These are clearly synergistic reasons for the M&A transaction.

The researcher got a distinct impression that the participants had a different context in mind when they mentioned these factors. The kind of expectations these participants had in mind related to issues such as the ability of the BBBEE partner to open new markets, conduct lobbying for the target company with Government and other regulatory authorities and so forth. This is clear when regard is had to the following statement of participant number 11: "*I think Black partners often over promise, because they are showcasing themselves...they talk about their connections; that they have political, business influence that they can bring etcetera and then, don't deliver on those promises or cannot mobilise their networks. And I think there was probably an expectation on the non-BBBEE companies that some hard doors would fly open and people would start signing contracts. I think that possibly BBBEE guys (sic) over – promise and I think the organisations* [non-BBBEE companies] *over-expected* (sic)."

Given the reasons identified by Sartorius & Botha (2008) for parties to enter into BBBEE M&As, as set out in Table 3, this study adds to the literature by suggesting that parties to a BBBEE M&A deal must actually align their expectations from the merger and clearly spell out the expected deliverables from each other. In fact, those participants that mentioned this factor stated that such deliverables must be clearly spelt out in a written contract and be reviewed periodically to ensure that they are being achieved. The researcher is of the view that such an approach is not only ideal but actually necessary as a mechanism to allow the parties, periodically to measure whether or not the deal is succeeding (Facounnier & Mathur-Helm, 2008) particularly having regard to an earlier point made that BBBEE is a journey whose success can only be realistically measured over-time.

6.3.4. Post-merger phase

This section discusses the success factors for the post-merger phase. As with previous phases of the merger process, these are discussed firstly, according to those factors identified as common between the literature and the study and secondly, those that were only mentioned during the study. Those which were only identified in the literature review, as set out in Table 17, were discussed extensively in chapter two and, therefore, would not be discussed again herein as to do so would be unnecessary repetition.

6.3.4.1. Common factor between the literature and the study

Culture alignment

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
1	Cultural alignment	11

A big area of convergence between the literature and the results of the study for this phase of a merger process is with regard to the importance of cultural fit or alignment between the two merging firms, as a critical success factor (DiGeorgio, 2003; Lodorfos & Boateng, 2006; Riad, 2007; Tanure *et al*., 2009). This factor was mentioned by 85 percent of the participants and is, accordingly, the highest ranking factor of success for BBBEE M&As. Literature has defined cultural differences between the two merging firms as one of the biggest threats to the success of a merger (Appelbaum *et al*., 2007; Facounnier & Mathur-Helm, 2008; Pepper & Larson, 2006). The results of this study supports the literature on this point.

Importantly, most of the participants felt that the objective with regard to cultural alignment must not be to achieve cultural similarity between the merging firms. Rather, the participants felt that what is important is for the two merging firms to share common values that can act as the glue that binds them together and guides their working relationship. Participant number 5 put it as follows: "*you will never be able to really* (sic) *get a perfect culture fit...but what is important is being able to make sure that even with your differences, you can work out how you work together*". This was supported by participant number 8 who said "*what is important is to share values because values create a bridge between the two cultures*".

These statements support the literature that cultural integration must not always necessarily mean cultural assimilation (Sarala & Vaara, 2010; Stahl & Voight, 2008). What is important, as participant number 2 put it, "*is as long as the principles of doing business are similar*". Participant number 1 phrased it appropriately when he said "*non-racialism does not mean Africans being assimilated into the white culture but it means bringing our strengths as Africans but bringing it in a manner that makes it accessible to those who don't come from that cultural background such that those people would be able to function in that environment and understand it as well. It is about creating a tapestry of peoples and cultures"*.

This line of reasoning supports the literature that if managed properly, cultural differences can actually be a source of competitive advantage (Bjorkman *et al*., 2007; Riad, 2007; Sarala & Vaara, 2010; Stahl & Voight, 2008).

The researcher submits that it should come as no surprise that cultural alignment between the two merging firms was identified by the participants as one of the critical success factors for BBBEE M&A transactions. Neither should it be surprising that this factor was ranked so highly and mentioned by almost all the participants. In most cases, BBBEE and non-BBBEE entities come from completely different cultural backgrounds. In fact, one of the factors used by the BBBEE Act to describe a firm as a BBBEE entity is that it must be managed and controlled by Black people as defined (BBBEE Act, 2003; Esser & Drekker, 2008). Although a generalisation, most non-BBBEE entities are, by definition, comprised mainly of white employees.

Historically, Black and white people in South Africa were, by law, not allowed to live or associate together and thus, were deprived of learning, understanding and sharing each other's cultures. In this context, it is not surprising that most participants indicated that whilst cultural alignment is important for the success of a BBBEE M&A transaction, this must not be interpreted as requiring complete cultural assimilation. Hence, as one

of the participants said, it is important to have common values as "values provide the bridge" between the different cultures. It is the same reason, the researcher believes, why participant number 1 said that what is important is to have a "tapestry of peoples and cultures". Without expressly saying so, the researcher believes that the views of these participants can be interpreted as showing their appreciation of the context South Africans come from. And, informed by that context, the participants are calling for a celebration of the cultural diversity of the merging firms in a manner that advances the interests of such firms. As indicated earlier, this is a powerful confirmation of the literature that if managed carefully, cultural diversity can be a source of competitive advantage (Bjorkman *et al*., 2007; Riad, 2007; Sarala & Vaara, 2010; Stahl & Voight, 2008).

6.3.4.2. Divergent factors between the literature and the study

The participants mentioned a number of factors of success for this phase of a merger process which were not identified in the study. These are: (i) active governance; (ii) operational involvement; (iii) relationship management; (iv) transformation; and (v) social investment. It is to these that the discussion now turns. Management of personal relationships will not be separately discussed because even though it was mentioned by two participants, it was really mentioned within the context of culture fit. As regards social investment, this has been discussed already in relation to research question one as part of the financial domain success measures; no purpose would be served by repeating it again at this stage.

6.3.4.2.1. Active governance / Operational involvement

These factors are discussed herein together not only because they are ranked equally, but, also because they actually are related. They are related in a sense that the manner in which the participants discussed them indicates that the one leads to the other in this way: by being operationally involved, the BBBEE entities ensure the active governance of their investments. These factors were not identified in the literature as success factors for M&A transactions.

Extracts from Table 10

Rank	BBBEE M&A success factor	Frequency
5	Active governance	6

Rank	BBBEE M&A success factor	Frequency
5	Operational involvement	6

Forty-six percent of the participants stated that it is important that BBBEE firms must actively manage and govern their investments. However, the participants differed with regard to the extent of such involvement. Whereas some thought that such involvement must extend to operational involvement, the majority of participants stated that such involvement must only go as far as involvement strategically at the level of the board of directors and its sub-committees. On the other hand, one participant actually mentioned that BBBEE entities must not be involved at all in the operations of the business. In his view, BBBEE entities must only be passively involved.

The following statement by participant number 9 summarises the views of those who argued for a stronger operational involvement: "*We have to start talking about not being portfolio investors in businesses, but actually fundamentally owning businesses that we control*". This position is in stark contrast to the perspective of some of the participants who felt that BBBEE entities need only be passively involved in the transaction. This perspective is best represented by the following statement from participant number 12, for whom, BBBEE M&A transaction "*works because..*[the BBBEE partners] *do not interfere in the business...they let us go on with the business and do not tie up management with onerous reporting requirements and operational queries, excessively or at all*". Participant number 4 differed sharply with this statement. In her view "[BBBEE entities] *need to become operational, not just be passive shareholders"*.

There were, however, other participants who felt that BBBEE entities must not aim to be operationally involved but must aim to be strategic partners through participation in the board of directors and its sub-committees. This is best illustrated by the following statement from participant number 7: "*it is quite key that you become a truly strategic partner".*

The operational and strategic involvement referred to in the study is different from that referred to in the literature. As indicated in chapter two, literature argues that with regard to voluntary M&As, it is important that the post integration phase be properly managed (Cording *et al*., 2008; Knilans, 2009). Within this context, literature also discusses, at length, the levels of integration required in order to make a voluntary M&A transaction successful (Apelbaum *et al*., 2007; Hitt *et al*., 2009; Pagano & Tunisini, 2011; Tanure & Duarte, 2007). These, however, relate to the technical and operational integration of the two merging firms. It does not relate to whether or not the BBBEE partner is involved (strategically or operationally), in the business of the firm in which it has acquired the shares.

It is the researcher's view that the divergence of opinions among participants regarding the extent of involvement of BBBEE partners is a reflection, to some extent, of the views of the participants regarding the transaction rationale. Earlier on, it was indicated that the transaction rationale was identified by some of the participants as an important success factor whereas this factor is not mentioned in the literature. If regard is had to the statement of participant number 12, it can be seen that his views would probably be similar to those for whom, BBBEE M&As must be done because the legislation requires that such transactions be entered into; not because they believe it is a commercial imperative to do so. And so, in the circumstances, they would expect very little interaction or 'interference' as participant number 12 puts it, with their BBBEE partners.

6.3.4.2.2. Transformation

Extract from Table 10

Rank	BBBEE M&A success factor	Frequency
5	Transformation	6

It is rather surprising that transformation, as a factor necessary for the success of BBBEE M&As, was actually ranked number five in Table 10. Considering that ten of the participants were from BBBEE entities, the researcher had expected that this factor would be high in the list of success factors for BBBEE M&As. However, notwithstanding its ranking, its significance was expressed as follows by participant number 7: "*transformation is quite key and for me it has to be measured at all levels. BBBEE should not only be about equity, it should also be about to what extent do we make sure that the previously disadvantaged individuals are given proper opportunities to realise their value*".

Participant number 3 expressed himself as follows on this issue: "*transformation is much broader...it is about heritage, language and identity ...and the point about it is that success of a merger and acquisition implies fully understanding what all of those elements actually mean"* For participant number 1, "*transformation can be an integrator to integrate the target business into your way of doing things".* For him, BBBEE entities must actually be transformation leaders. Participant number 2 indicated that for them, they go as far as "*to enter into a contractual agreement with the company in which they acquire shares regarding the transformation deliverables that are expected.*"

It is clear from these statements that for many participants in the study, the success of a BBBEE M&A is influenced by factors beyond the traditional M&A success factors.

For many participants, there is also a social and ethical dimension to it. This view is consistent with the success measures which were indicated by the participants in relation to research question one above. It would be remembered that most participants indicated that they measure the success of a BBBEE M&A by looking at factors beyond just the financial and economic indicators.

This factor does not feature at all in the literature on voluntary M&As as a factor necessary for the success of M&A transactions. The closest the literature comes to this factor is with regard to the need to ensure proper integration of the merged entities (Agarwal *et al.,* 2012; Appelbaum *et al*., 2007; Ireland *et al*., 2011; Lin, 2012; Nguyen & Kleiner, 2003). And, in the definition of what is integration, literature defines it simply as the process of combining two firms into one entity at every level, including merging and transferring of resources, processes, people, systems, capabilities and systems (Cording *et al*., 2008; Hoang & kamolrat, 2007). This is what Pagano & Tunisini (2011) refer to as procedural integration and Stahl & Voight (2008) refer to as task integration.

As indicated from the anonymised quotations referred to above on this point, transformation is something different. It is not just about post-merger integration. It relates to the frame of mind; the whole rationale for the transaction. Thus, the study makes an important contribution to the literature on BBBEE M&As by adding to our understanding of what post merger integration entails. According to the results of this study, such a process must, within the context of BBBEE M&As, go beyond procedural and task integration. As participant number 8 put it, "*it is about seeing the world differently*".

6.3.5. Factors applicable to all the phases of a BBBEE M&A transaction

Two of the factors listed in Table 17 were identified by the participants as being applicable to a BBBEE M&A transaction throughout all its phases. These are leadership and communication. These factors will be discussed jointly in this section. They are related in the manner that the participants discussed them. The participants stated that leadership is important not only in driving the successful conclusion of the transaction but also in communicating the objectives of the transaction and rallying the employees of the merging firms around the common vision of the merging firms.

Leadership and communication

Extracts from Table 10

Rank	BBBEE M&A success factor	Frequency
5	Leadership	6

Rank	BBBEE M&A success factor	Frequency
13	Communication	3

Most of the participants confirmed the literature regarding the role and importance of leadership during a voluntary M&A transaction (Appelbaum *et al*., 2007; Cummings & Worley, 2009; Gill, 2003; Pepper & Larson, 2006) as also being applicable to BBBEE M&A transactions. Participant number 9 put the point as follows: "*strategic leadership is important. Leadership must come from a position of saying this is what we seek and this is what we are going to achieve and this is how we are going to achieve it*". It is, however, important to note that most of the participants who cited the importance of leadership related this factor as being important throughout the entire M&A process.

Concomitant with the issue of leadership, is the importance of communication throughout a merger process. Although ranked low, as it was only specifically mentioned by three participants, the researcher thinks that it is, nevertheless, an important factor to take into consideration. In fact, one participant indicated that within the context of their BBBEE M&A transaction, one of the mistakes they made was not to communicate enough with all their staff during the BBBE M&A process and, in his view, that contributed to some of the difficulties they had, including the resignations that happened in the process.

This finding supports the literature which has identified that one of the reasons why integration fails is, among others, delays in communication (Nguyen & Kleiner, 2003). According to Kotter & Rathberger (2006), one of the eight mistakes firms make when implementing change, is under-communicating the vision. As a merger process entails traumatic change (Appelbaum *et al*., 2007), it is important that the change process be handled sensitively. Constant communication from the leadership to all staff members throughout the merger process is one way of avoiding unnecessary tension and resistance to change (Cummings & Worley, 2009; Kotter & Rathgerber, 2006).

The researcher is of the view that the identification of these factors, and particularly the emphasis that they are important throughout the entire merger process, is correct. Indeed, as the literature has indicated, a merger entails fundamental and traumatic

change to those involved (Appelbaum *et al*., 2007). It is the researcher's view that given the involuntary nature of BBBEE M&As, this factor should take on an even much significant importance for such transactions. It is, thus, a bit surprising and disappointing that both of these factors were mentioned by such a low number of participants and consequently, ranked so low in Table 10. However, notwithstanding their low ranking, it is clear from the findings that specific attention should be dedicated to these factors during any BBBEE M&A transaction.

6.3.6. Conclusion regarding research question two

Research question two captures the central theme of this report's research problem. To recap, the issue that this research question sought to answer was to identify the factors that affect the success of BBBEE M&A transactions. The question elicited a diverse range of factors which are set out in Appendix 4. These factors were thematically organised as set out in Table 10. As this study is to some extent, a comparison between BBBEE M&As and voluntary M&As, the researcher organised these factors, firstly, according to the phases of a typical M&A transaction. This is done in Table 11. A summary of the success factors mentioned by the participants as being uniquely required for BBBEE M&As is set out in Table 13.

The main contribution of this study to the body of knowledge on voluntary and BBBEE M&As, is contained in a summary form, in Table 17. That table is a comparison of the success factors identified in the literature and those mentioned in the study. The first column of Table 17 sets out the success factors identified only from the literature review. The next column thereof lists the factors which are common between those identified in the literature review and those mentioned in the study while the last column of Table 17 sets out those success factors mentioned in the study only.

Whilst it is clear that there are a number of common success factors between the literature and the study, there are also a significant number of important divergent success factors. And, even where there are common factors, the emphasis between this study and the literature on those factors, is somewhat different. Consequently, the results of the study do answer the research question. The study does so by clearly indicating the factors that are necessary for the success of BBBEE M&As.

It is within that context that the next section of this report discusses the results of research question three on whether the factors that are necessary for the success of voluntary M&As, are also applicable to BBBEE M&As.

6.4. Are the factors necessary for the success of voluntary mergers and acquisitions also applicable to BBBEE mergers and acquisitions and if so, which ones?

6.4.1. Introduction

As indicated in chapter five, this research question was aimed at comparing whether or not the factors that are required for the success of voluntary M&As are also the same as those required for the success of BBBEE M&As. The results of the study to this research question are mixed. In Table 17, the researcher provided a list of the success factors as identified from the literature review only, those identified in the study only and those common between the study and the literature review. For ease of reference, those factors common between the literature and the study are set out in Table 18 below. A full discussion of those common factors is set out in the preceding discussion relating to research question two and will therefore, not be repeated herein.

Table 18: Common success factors between BBBEE M&As and voluntary M&As

Success factors common between BBBEE M&As and voluntary M&As
❖ Planning / Corporate level strategy ❖ Due diligence ❖ Establish a multi-disciplinary team to execute the merger process ❖ Negotiation ❖ Transaction structure ❖ Leadership ❖ Culture ❖ Communication

Source: compiled by the researcher from Table 17

6.4.2. BBBEE M&As success factors

In response to this research question, 76 percent of the participants, mentioned that BBBEE M&As either require additional success factors to those applicable to voluntary M&As or require their own success factors. The results of this research question are set out in Table 12.

Extract from Table 12

Participant's view	Frequency
BBBEE M&As require different or additional success factors to those applicable to voluntary M&As.	11

The additional success factors required for BBBEE M&As are set out in Table 13. In essence, Table 13 is the same as the last column of Table 17, with a few additional factors as contained only in Table 13. A comparison between Table 13 and the last column of Table 17 is set out hereunder, as Table 19.

Table 19: Comparison between Table 13 and the last column of Table 17

Table 13 factors	Table 17 factors (last column only)
Funding structure -discount -facilitation -vendor financing	❖ Own equity contribution ❖ In house capability to assess the deal ❖ Transaction rationale ❖ Discount on the market value of the shares ❖ Facilitation by the vendor ❖ Vendor finance
Transaction rationale	❖ Alignment of expectations ❖ Clearly define deliverables
Transformation	❖ Active governance ❖ Operational involvement ❖ Relationships management ❖ Transformation ❖ Social investment
Need to allow balance sheet freedom to allow for future growth ability	
Relationships / partnerships	
Social investment	
Horses for courses	

Source: compiled by the researcher from Tables 13 and 17

Effectively, Table 19 provides an answer to the call by authors such as Fauconnier and Mathur-Helm (2008); Kruger (2011); Patel and Graham (2012) as well as Sartorius and Botha (2008) that academic research be conducted to identify the factors that affect the success of BBBEE M&As. Research question two identified the factors that affect the success of M&As generally, including BBBEE M&As whereas research question three identified those factors which are only applicable to BBBEE M&As. Thus, this study adds to the limited *corpus* of academic literature on BBBEE M&As (Patel & Graham, 2012). It also plugs an important gap to the various studies on the performance of BBBEE M&As in terms of which, the benefits of BBBEE were identified (Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008 and; Wolmarans & Sartorius, 2009) without understanding firstly, what leads to the success of such transactions.

As can be seen from Table 19, extensive commentary on most of the factors contained in the "Table 13 factors" column is set out in the discussion relating to research question two. Similarly, Table 19 shows that the factors set out in the "Table 17 factors" column were discussed in relation to research question two above. Consequently, this section of the report shall only focus on the two factors highlighted in bold and underlined in Table 19. Those factors have not been discussed before.

These are: (i) the need to allow balance sheet freedom for future growth and the one styled, (ii) horses for courses.

6.4.2.1. Balance sheet scope for future growth

This factor was only mentioned by two participants. These participants said that in putting together a BBBEE M&A funding structure, one must leave room for future expansions. Essentially, these participants are calling for more optimum funding structures, not the current ones where most of the BBBEE M&A deals are highly geared (Cargill, 2010). It is the researcher's view that on closer examination, this factor can also be linked to the one in Table 10 styled "transaction structure". It would be remembered that under that factor, are all the issues relating to how the BBBEE M&A transaction is structured and funded. This deals with issues such as whether or not there is any facilitation provided by the vendor, either by way of vendor finance or amount of upfront discount provided.

6.4.2.2. Horses for courses / focused investment

At least one participant indicated that one of the success factors which may be required is that BBBEE entities need to be focused instead of the current model where many of them are set up as large diversified investment holding and management companies. This participant postulated this factor without much rigour. When asked whether she thought that would mean the end of BBBEE companies as they are currently known, she said that she hoped not. The researcher is of the view that this issue might require further probing that perhaps future studies could look at as it was not within the scope of this research.

6.4.3. Conclusion regarding research question three

The results of this study do answer research question three. The results indicate that, in addition to the common success factors between BBBEE M&As and voluntary M&As, as set out in Table 17, BBBEE M&As also require additional success factors. These are set out in Table 13. As discussed earlier, the factors set out in Table 13 are the same as those set out in the last column of Table 17, with the addition of two other factors, namely: (i) the need to allow balance sheet scope for future growth and, (ii) focused investments. It seems, though, that these last two factors have to do more with the sustainability of the BBBEE entities themselves rather than the success of BBBEE M&As, *per se*.

The factors identified in the study as necessary for the success of BBBEE M&As are as set out in Table 20 below. This table has been compiled from the factors set out in Table 17 and adding thereto, the two factors from Table 13 which are underlined and highlighted in bold in the table.

Table 20: BBBEE M&As success factors

Factors common between BBBEE M&As and voluntary M&As	**Additional success factors for BBBEE M&As**
❖ Planning / Corporate level strategy ❖ Due diligence ❖ Establish a multi-disciplinary team to execute the merger process ❖ Negotiation ❖ Transaction structure ❖ Leadership ❖ Culture ❖ Communication	❖ Own equity contribution ❖ In house capability to assess the deal ❖ Transaction rationale ❖ Discount on the market value of the shares ❖ Facilitation by the vendor ❖ Vendor finance
	❖ Alignment of expectations ❖ Clearly define deliverables
	❖ Active governance ❖ Operational involvement ❖ Relationships management ❖ Transformation ❖ Social investment
	Need to allow balance sheet freedom to allow for future growth ability
	Horses for courses

Source: compiled by the researcher from Table 13 and 17

As can be observed, Table 20 provides a snapshot of all the factors mentioned in the study, as necessary for the success of BBBEE M&As. It is a culmination of the findings of this study and a conclusion of the discussion from research questions two and three. Such factors consist of those which are common between the literature and the study and, those which were only mentioned in the study. In a nutshell, this table provides an answer to the call by Fauconnier and Mathur-Helm (2008); Kruger (2011); Patel and Graham (2012) as well as Sartorius and Botha (2008) that academic research be conducted to identify the factors that affect the success of BBBEE M&As.

In the next chapter, the researcher provides a summary of all the findings of this research report.

7. CHAPTER 7: CONCLUSION

7.1. Introduction

Extensive review of academic literature on voluntary and BBBEE M&As was conducted and discussed in chapter two of this report. With regard to voluntary M&A transactions, the literature review highlighted two main aspects: Firstly, that there is a plethora of academic research on the various factors that are necessary for the success or failure of such transactions (Appelbaum *et al*., 2007; Cartwright & Schoenberg, 2006; DiGeorgio, 2003; Eccles *et al*., 2001; Gaughan, 2011; Gendron, 2004; Haleblian *et al*., 2009; Horwitz *et al*., 2002; King *et al*., 2004; Marks & Mirvis, 2011; Miczka & Grobler, 2010; Papadakis, 2005; Tanure *et al*., 2009; Trompenaars & Asser, 2011); and secondly, that there is little consistency among various authors about what constitutes voluntary M&A performance (Cartwright & Schoenberg, 2006; Meglio & Risberg, 2011).

The review of the literature on BBBEE M&As indicated that the conclusion of BBBEE M&As results in financial and economic benefits for the entities concerned (Araujo *et al*., 2007; Ferreira & de Villiers, 2011; Jackson *et al*., 2005; Marais & Coetzee, 2006; Strydom *et al*., 2009; Strydom *et al*., 2011; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). There is, however, a paucity of academic literature on the factors that are necessary for the success of BBBEE M&A transactions (Fauconnier & Mathur-Helm, 2008; Ferreira & de Villiers, 2011; Juggernath *et al*., 2011; Kruger, 2011; Patel & Graham, 2012; Sartorius & Botha, 2008).

It is these aspects of the literature review that contextualised the research problem and consequently, the purpose of this research. With a view to refine and provide more clarity to the research problem, as informed by the literature review, the researcher formulated three research questions. These were:

- What constitutes a successful BBBEE M&A transaction?; how is it measured?
- What factors are necessary to ensure the success of BBBEE mergers and acquisitions?
- Are the factors necessary for the success of voluntary mergers and acquisitions also applicable to BBBEE mergers and acquisitions and if so, which ones?

In accordance with the research methodology set out in chapter four, a substantive amount of data was collected in relation to each of the research questions set out above. These were discussed extensively in chapter six. Accordingly, this chapter provides a summary of the findings of this study and suggests potential areas of future

research in order further to advance and take forward some of the findings of this study.

7.2. Research findings

7.2.1. Research question one findings

The literature on voluntary M&As indicated that there are various ways to measure the success of such transactions and that such measures tend to be mainly of a financial or non-financial domain nature (Cartwright & Schoenberg, 2006; Meglio & Risberg, 2011). The findings of this research indicate that, on that point, BBBEE M&As are no different from voluntary M&As. Like voluntary M&As, there are also various ways to measure the success of BBBEE M&As. The findings also indicate that BBBEE M&A success measures can also be categorised into financial or non-financial domain success measures. However, the findings of this research indicate clear differences between BBBEE M&As and voluntary M&As regarding the content and nature of their financial and non-financial domain success measures.

In other words, whilst there is convergence between the findings of this research and the literature on the principle that there are various ways to measure the success or otherwise of an M&A transaction, there is, however, an important divergence with regard to the actual financial and non-financial domain success measures used between these two types of M&As. The common and different financial and non-financial domain success measures between BBBEE M&As and voluntary M&As were fully discussed in chapter six and are set out in Table 14 and Table 15. Table 16 was compiled to set out a single reference point that clearly indicates the financial and non-financial domain success measures found from this study.

The financial domain success measures used in BBBEE M&As which are different from those used in voluntary M&As are, as appears from Table 14, the following: (i) cost of the transaction; (ii) value realisation; (iii) cash generation; and (iv) the extent of social returns to the community. The common financial domain success measures between BBBEE M&As and voluntary M&As are: (i) market performance; and (ii) accounting performance measures.

The main difference between BBBEE M&As and voluntary M&As, with regard to the use of non-financial domain success measures, is that in addition to the tangible non-financial domain success measures, BBBEE M&As are also measured in terms of intangible non-financial domain success measures. Some of the intangible non financial domain success measures mentioned in the study are those relating to :

(i) transformation; (ii) relationship and trust; and (iii) culture fit. It is, however, important to note that the use of the label 'intangible' with regard to some of the non-financial domain success measures of BBBEE M&As, does not mean that such measures are less important. As indicated, the label is used merely to indicate that such measures may not be easily quantifiable.

7.2.2. Research question two findings

This research question aimed to find answers to augment the limited body of existing academic research on the factors that are necessary for the success of BBBEE M&As. As with the previous research question, this question also produced a wide variety of factors which, in the view of the participants, are necessary for the success of BBBEE M&As. Those factors are set out in summary form in Table 20. Such factors consist of those which are common between the literature and the study and, those which were only mentioned in the study.

In Table 17, the researcher set out a comparison between those factors which are common between the literature and the study and those which were identified in the literature but not mentioned in the study and, those which were only mentioned in the study but not identified in the literature. For ease of understanding, these were set out according to the three phases of a typical M&A transaction, which are: (i) pre-merger; (ii) during-merger; and (iii) post-merger phases. In that sense, the findings of this study have clearly indicated that whilst there are similarities between BBBEE M&As and voluntary M&As, there also important differences in the factors that are necessary for the success of these two types of M&A transactions.

Some of the success factors mentioned in the study for BBBEE M&As are: funding structure, transaction rationale, expectations' alignment, clear deliverables, active governance, operational involvement, relationship management, transformation and social investment. These are in addition to those factors which are common between the literature and the study. The findings of this study indicates that some of the success factors which are common between the literature and this study are, namely: (i) planning / corporate level strategy; (ii) due diligence; (iii) the need to establish a multi-disciplinary team to execute the merger process; (iv) negotiation; (v) transaction structure; (vi) leadership; (vii) the need to ensure cultural alignment; and (viii) communication.

A fundamental success factor mentioned by many participants and discussed extensively in the literature is that of cultural alignment between the merging firms.

Importantly, the results of this study confirm the literature that the focus of cultural alignment must not always be aimed at cultural assimilation as cultural differences can actually be a source of competitive advantage for the merging firms, if properly managed.

7.2.3. Research question three findings

This research question was composed as a way to compare the success factors for voluntary M&As and BBBEE M&As. The intention was to assess whether BBBEE M&As require their own unique success factors. Indeed, the findings of the study indicate that BBBEE M&As require their own success factors, in addition to those required for voluntary M&As. Those factors uniquely required for BBBEE M&As are set out in Table 13. Briefly, these are: funding structure, transaction rationale, transformation, importance of relationships and the need for social investments.

7.3. Practical implications of this research

7.3.1. Implications for practitioners and business people

The findings of this research have practical implications for all those interested in the success of BBBEE M&A transactions. Business people and practitioners in the BBBEE M&A field must take extra care when structuring and implementing BBBEE M&A deals. Such deals cannot simply be based on the same models and frameworks of success factors that are used for voluntary M&A deals. As set out in Table 20, this study provides a list of factors which must be borne in mind, to ensure the success of BBBEE M&A deals. Those involved in the conceptualisation, structuring and implementation of BBBEE M&A deals must ensure that, in addition to having regard to the success factors required for the implementation of any M&A transaction, they take special account of those factors set out in the last column of Table 20, as discussed in paragraph 7.2.2 above. Those factors were mentioned by the participants as being particularly important for the success of BBBEE M&A deals.

7.3.2. Implications for academics, analysts and practitioners

The findings of this study also provide useful insights for those interested and involved in the evaluation of the success or otherwise of BBBEE M&A deals, such as policy makers, BBBEE rating agents and academics. In this regard, this study has provided a list of financial and non-financial domain success measures which can be used to evaluate the success or otherwise of such deals. These are set out in Table 16.

The findings of this research clearly indicate that the success of BBBEE M&As cannot be measured by simply using the traditional accounting and market performance measures, as used for voluntary M&As. In line with the peculiar nature of BBBEE M&A deals, their success must be evaluated by, among others, having regard to tangible and intangible success measures as these terms were discussed and explained in this report.

7.4. Potential research limitations

The potential research limitations relating to this study and some of the challenges encountered whilst conducting this study have been documented in chapters four and five. In the main, the limitations relate to the fact that this is an exploratory study and consequently, the factors mentioned by the participants could not independently be verified. This issue is dealt with further in the next section of this report. Furthermore, although the participants gave freely of their time, all of them for at least an hour (and some even more) for the interview, some of the issues discussed might not have been probed in as much details as other studies might do. Nevertheless, as indicated throughout this report, an extensive and substantial amount of relevant data, sufficient to answer the research questions, was collected.

7.5. Recommendations for future research

In line with the exploratory nature of this study, a number of potential future research areas were identified and are highlighted in this section.

In the discussion of the findings of this study in relation to research question one, it was noted that BBBEE M&A deals are generally done at a discount and that this is contrary to research on voluntary M&As which has indicated that acquiring firms regularly pay premiums in order to acquire shares in target firms (Epstein, 2004). It was also pointed out that research on voluntary M&As has shown that as a result of the payment of premiums by acquiring firms, the shareholders of target firms generally fare better than those of acquiring firms (Cartwright & Schoenberg, 2006; Haleblian *et al*., 2009; King *et al., 2004*) in voluntary M&As.

A point noted regarding BBBEE M&A deals was that despite such deals generally being done at a discount, research has shown that the conclusion of BBBEE M&A deals leads to significantly positive cumulative abnormal returns to shareholders of announcing firms (Jackson *et al*., 2005; Ward & Muller, 2008; Wolmarans & Sartorius, 2009). Consequently, the researcher asked the question: Does this mean that, unlike voluntary M&As, BBBEE M&A transactions result in a win-win result for the

shareholders of both acquiring and target firms? It is recommended that future research be undertaken to investigate this question. The answer to this question is important not only from an academic perspective, but also for the business community as it may help to deal with some of the criticisms of BBBEE M&A deals.

Another potential future research question emanates from one of the limitations of this study. The limitation noted in chapter three is that whilst all the participants in this study have extensive experience and expertise in conducting BBBEE M&A transactions, as was demonstrated through Table 6 and Table 7, the factors they mentioned as necessary for the success of BBBEE M&As are their own subjective views. None of those factors were (nor could they have been) independently and empirically tested, given the exploratory nature of this study. Consequently, it is recommended that a future quantitative, causal study be undertaken to determine the extent of the relationship between all or some or a combination of some of the success factors set out in this report and the performance of particular BBBEE M&A transactions.

For instance, it may, be important for future studies quantitatively to:

- assess whether or not there is any correlation between the rationale for entering into a BBBEE M&A transaction and the success of such a transaction;
- examine whether there is any relationship between the level of own equity contribution provided by a BBBEE entity during a BBBEE M&A transaction, the level of facilitation provided by the vendor, (whether through an upfront discount on the share price or the amount of vendor financing provided), and the value eventually derived by BBBEE entities from the transaction;
- examine whether the type of facilitation provided by the vendor makes any difference in the amount of value eventually realised by a BBBEE party?

7.6. Study contribution

The findings of this research make an important contribution to the limited *corpus* of academic literature on the factors that are necessary for the success of BBBEE M&As. Through semi-structured and in-depth interviews with experts and seasoned practitioners in the field of BBBEE M&A transactions, the report has shown how, firstly, BBBEE M&As are similar to voluntary M&As and, more importantly, how they are different. This study has demonstrated that how one measures the success of BBBEE

M&As and the factors that are necessary for such success, is different from, what, in this report, has been termed voluntary M&As.

At the beginning of this research report, the researcher stated, as part of the research motivation, that it is hoped that given the strategic and central role of BBBEE to the economic development and transformation of South Africa, this study will assist policy makers, academics, analysts, corporate and business practitioners in structuring sustainable and profitable BBBEE M&A deals. The findings of this study provide practical tools (as set out in Table 16 and Table 20) that can be used to ensure the success of BBBEE M&As and measure such success.

As the Chinese proverb goes:

"Let a hundred flowers bloom: let a hundred schools of thought contend!"

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APPENDIX 1: INTERVIEW CHECK-LIST

PURPOSE OF STUDY

The purpose of this study is to understand the factors that affect the success of BBBEE mergers and acquisitions.

DEMOGRAPHIC INFORMATION (purely for statistical purposes)

Date of interview	
Time of interview	
Name of organisation	
Name of the participant	
Position in the organisation	
How long in that position	
Number of BBBEE transactions done	

PROMPT QUESTIONS

What is your view of BBBEE in general and BBBEE M&A in particular?
Why did your company enter into a BBBEE M&A transaction?
Has your organisation derived any benefit from the transaction?
What is the nature of that benefit?
What, in your view, is required to make BBBEE M&As successful?
What, in your view, constitutes a successful BBBEE M&A?
How would you measure such success?
How would you compare BBBEE M&As from other “voluntary” M&As?
Do you think the factors or some of the factors which are apparently required for the success of voluntary M&As are the same for BBBEE M&As?
What role do you think national, organisational or social culture plays in the success of BBBEE M&As? Is it relevant at all?
What is the role of organisational leadership in the success of BBBEE M&As?
Why is it that some BBBEE M&As do not succeed?
Can you share some of your experiences in concluding BBBEE M&As?

PROCESS

The questions and/or order of questions may vary according to the responses of the participants

Depending on the responses, follow-up questions to some of the questions above may be necessary or in certain cases, completely different questions may have to be asked.

APPENDIX 2: INTERVIEW CONSENT FORM

CONSENT FORM

FACTORS AFFECTING THE SUCCESS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT MERGERS AND ACQUISITIONS

Rapulane Mogototoane: Final Year MBA, GIBS

		Please initial box	
	I confirm that I understand what the research is about and have had the opportunity to ask questions.		
	I understand that my participation is voluntary and that I can withdraw at any time without giving a reason.		
	I agree to take part in the research.		
		Please initial box	
		Yes	**No**
	I agree to my interview being audio recorded.		
	I agree to the use of anonymised quotations in publications.		

Name of participant: ..... Signature: .....

Researcher's name: **RAPULANE MOGOTOTOTOANE** Signature: .....

Date: .....

Source: Saunders & Lewis (2012: 155)

APPENDIX 3: BBBEE M&A SUCCESS MEASURES

Participant No	COMMENTS
1	• BBBEE must go beyond mere compliance with the law • The merger must result in an "African tapestry of peoples and cultures" • There must be excitement about the new identity • Extent of collaboration among the clustered divisions
2	• Structure of the transaction • Cost of the transaction (whether or not the funding structure is not too heavy for BBBEE company) • Extent of the facilitation provided upfront by the investee company • Nature and type of 3rd party funding terms • Dividend flows • Whether the BBEE entity is, post the transaction, able to pay off the debt and realise value whether in the form of cash or the value created in the shares • Involvement of the BBBEE company in the operation of the target company
3	• Employment equity, control and management • Transformation • Business that meets your core objective • The extent to which the merger enables the two companies to operate optimally • Extent to which the target is able to add creative tension that would spur the enterprise to engage at a new level • Extent of the ability to leverage and extract the synergies and collaboration potential of the merging firms • Operational improvements • Culture alignment in terms of an understanding of heritage, language and identity • Alignment of the ethos between the merging firms across different business units
4	• Share price • Cost of the transaction • Transformation • The deal must go beyond compliance with the BBBEE codes
5	**Non-economic measures** • Economic empowerment • Alignment between the shareholders • Degree and level of partnership between the two entities • Level of commitment by the target company to transformation beyond the BBBEE Codes • Relationship between the parties • Extent to which the parties share the same vision and objectives • Extent to which the transaction results in the merging firms becoming good and responsible corporate citizens **Economic measures** • Contribution to the local communities • Nature of the funding of the transaction • Structure of the tranaction • Return on investment • Return on equity • Internal rate of return • Level of facilitation or discount provided
6	• Should be measured the same way as any other M&A transaction • Depends on whether initial objectives of the deal have been met or not • Motive or reason for entering into the transaction • Structure of the transaction • Whether the deal results in the creation of shareholder value for all parties • Synergy creation • Commercial sustainability • Long-term growth • Ability to generate future cashflows by way of divided payments • Chemistry between the parties • Transformation
7	• Whether the BBBEE company has received any financial returns from the transaction • The extent to which the BBBEE team is ivolved in the management of the business either through strategic board participationor driving transformation at an operational level • Extent to which the BBBEE firm is and being made to feel that they are a true partner in the transaction

	• Return on equity • Entry price paid (whether discounted or facilitated) • Extent of the social returns to the community as a result of the investment • Transformation as measured through (i)employment equity levels; (ii)extent to which the company is truly RSA; (iii) extent to which the company espouses the values of botho
8	**Acquirer perspective** • Meets and delivers on the set investment criteria in terms of hurdle rates • Internal rate of return • Post transaction funding, BBBEE party able to retain at least 50%-60% of the initial equity value which is fully unembumbered • Ability to produce cashflows during the investment period either through dividends or payment of management fees • Ability of the investee company to pay trickle dividends • Ability of the investee company to access new markets • Growth in the relationship and trust between the BBBEE company and the investee company • Extent to which the investee company sees the world differently
9	• Depends on the requirements and strategic objectives of the parties **Investee company perspective** • Ability to grow the top line by penetrating the markets they would otherwise not have been able to on their own • Enhancing the operations or efficiencies of the business • Income statement measures **BBBEE company perspective** • Whether or not the transaction results in increase in their asset value • Balance sheet measures • Ability to satisfy the needs of both parties • When value is unlocked
10	• Common values/beliefs between the merging firms • Ability to increase net asset value • Internal rate of return • Return on investment • Dividend flows • Whether the transaction leads to long-term relationships • Must be based on compelling business proposition • Competency to make good investments using own balance sheet • Extent to which the investee company engages in ethical or socially responsible investment and business practices • Level of transformation at the investee company
11	**Intangibles** • Symbiosis between the target and the BBBEE company • Is there a meeting or matching of the expectations between the two merging firms • Relationship between the parties to the merging firms • Level of culture fit between the merging firms **Tangibles** • The BBBEE deal must be “in the money” • Nature of the funding structure • Depending on the funding structure, could use return on investment or Internal rate of return • Performance criteria such as earnings structures
12	• Extent to which the transaction is entered into not only to meet legislative requirements but also to derive certain operational benefits therefrom • Whether BBBEE representatives are able to add value to the investee company at an operational level • Co-operative and trustworthy environment between the parties • Humility and not arrogance
13	• Depends on whether the investee company is a listed public company or a private company • Knowledge of and ability to access your shareholders • Ability of the transaction to meet the financial targets • The transaction must not be value destroying • Ability to realize the intended synergies • Costs must be carefully managed and monitored • Whether the transaction is entered into as part of a company’s long term strategy • Is the transaction leaing to increased job creation • Alignment of the expectations of both parties

APPENDIX 4: BBBEE M&A SUCCESS FACTORS

Participant No.	COMMENTS
1	• Commitment to transformation • The deal must be done not only to comply with the law • Leadership • Proactive management • Integration • Due diligence is important to plan ahead • Cultural alaignment • Must result in an African tapestr of peoples and cultures
2	• Have in-house capability to lead the structuring and negotiation of the key transaction terms • Have clear key investment principles that form the basis of all transaction terms • Clear corporate level investment strategy • Multi-disciplinary team to consider all facets of the deal • Comprehensive due diligence • Transformation ethos and requirements contractually agreed upon upfront • Working with and assisting investee companies to meet their transformational objectives • Quarterly (regular) investment performance reviews • Regular transformation performance review • Targeted and selective operational involvement as well as strategic Board (EXCO) participation • Regular contact and interaction with management of investee companies to build relationships • Control of key senior management positions where the BBBEE firm has legal control • Culture alignment –not assimilation • Leadership
3	• Fully understand the internal and external context of the transaction • Understand the governance requirements given the nature of the transaction • Aims/rationale for the transaction • Must have sound ethical basis for the transaction • Ensure that the ethos to underpin the new relationship are shared this contrasts nicely with speed of integration • Put together appropriate structures and systems in place • Socio-cultural dimension of the transaction**]** • Cultural diversity is important • Need to understand that the level of complexity in conducting business has and is increasing
4	• Skill, expertise and track record in conducting BBBEE M&A deals • In house capability to structure and implement BBBEE M&A deals • Operational involvement • Ability of the BBBEE party to add value • Cross cultural understanding and respect for each other's culture • Mutual respect for each other • Leadership
5	• Conduct proper due diligence to understand the business, sector and partners you plan to work with • Understand the structure of the deal • Ensure that you have good negotiators and advisors • Agreements: negotiate favourable terms that provide for certain minority protections • Ensure proper execution of the transaction • Ensure that you are actively involved in the investment in order to add value in order to keep management accountable • Ability to provide own capital in order to reduce the upfront gearing of the transaction • Fully understand the funding options and stress test the business forecasts • Culture fit is critical **[]** • Commitment to transformation
6	**Hygiene factors** • The underlying business case must make sense • Must have clear strategic rationale for the transaction • Sustainability of the deal; ie financing structure • How much of own balance sheet to use • "Horses for courses" • Should not aim to be operationally involved if owning a minority stake-but rather aim for strategic involvement • Culture important but not uniquely a BBBEE challenge-"its the chemistry that counts"

7	• BBBEE partner must clearly define the sector they want to be involved in • BBBEE partner must have its own in-house capacity to assess the deals • BBBEE partner must have the capacity and skill to assess the funding structure of the transaction • Negotiation capability of the BBBEE partner • Conduct comprehensive due diligence of the target company, the sector and the industry • Conduct the background screening of the potential partners including the management team • The reason, rationale and attitude of the investee company for entering into a BBBEE M&A • Ability to add value • Do not let advisors to run the transaction • Limited operational involvement regarding the appointment of key management positions • Representation on critical board sub-committees • Must have sufficient industry knowledge and understanding • Ability to provide own equity contribution • Ensuring that the different cultures can co-exist
8	• The merger must form part of the corporate level strategy in terms of sector, industry, partners etc • BBBEE firm must fully understand the nature of the transaction • Capability and skills to execute the deal (either in-house or outsourced) • Legal counsel involvement to ensure proper protection of rights and obligations • Both partners must share the same values • Due diligence • Ability to contribute own capital or time in lieu of cash • Make sure that each transaction is ring-fenced • Conduct regular investment performance reviews • Leadership • Transformation
9	• Starting point is the reason for doing a BBBEE deal-must go beyond the need for licence to operate but rather use BBBEE as an opportunity for growth even beyond RSA • The BBBEE deal must form part of a corporate level strategy • Operational involvement by BEE Co's • Must contribute to growing economic value not only redistributing existing value • Due diligence • Manage potential cultural differences esp at board level is BBBEE entity has control • Strategic leadership • BBBEE firms must proactively define their corporate level strategy in terms of sectors and industries and companies they want to invest in
10	• Formal structure to track performance of investment • Define overall strategy clearly articulating the sectors and industries you want to participate in • Have a clear corporate and investment strategy • Comprehensive due diligence focusing on financials, legal, HR, operations etc • Have strong advisors to assist with the assessment, structuring and execution of the deal • Robust and formal investment approval process, eg Investment Committee • Proper planning (mangt teal lived through the merger) • Both parties must be clear about the reason for the merger (ie intended synergies expected from the merger) • Constitute a "merger committee" to attend to all aspects of the merger transaction • Ensure proper integration especially of the HR side • Leadership engagement • Regular communication with staff • Manage culture differences
11	• BBBEE partners should not over-promise /over-expectation by white co's • Inability to mobilise the promised networks • Communication between the two parties is critical • Strategic involvement at the board level and in board sub-committees • Focus by BBBEE companies instead of being a diversified investment holding company 9depends on the BBBEE company strategy) • Follow a rigorous process for the selection of a partner • Have clear deliverables expected from the BBBEE partner and have regular performance reports against those deliverables • Depends on and requires partnership
12	• First and foremost, ability to achieve empowerment objectives • BBBEE partner should not interfere in the operations of the company • BBBEE partner must be committed to adding value • Strategic involvement by the BBBEE partner at the board level and in some board sub-committees • Directors must have some level of operational involvement • Management of culture incompatibility • Leadership

13	• The BBBEE M&A deal must not result in the destruction of value (whether through costs, dividends etc) • Management of cultural differences is important-ensure that you get a partner with a compatible culture • Clearly articulate the expectations of each party at the early phase of the transaction • Operational involvement to the extent that a party is able to add value • There must be a clear and compelling reason for the transaction • Conduct comprehensive due diligence and background checks of the potential partners • Clear, open and frank communication between the parties • Leadership is very important whether BBBEE or any other transaction