POST-ACQUISITION INTEGRATION PROCESS OF TWO DIVERSE ACQUISITIONS BY A COMPANY

Jose Vincento de Sousa

A research report submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration

November 2006

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

POST-ACQUISITION INTEGRATION PROCESS OF TWO DIVERSE ACQUISITIONS BY A COMPANY

A dominant South African furniture and white appliance retailer's post-acquisition integration process on assimilating two diverse acquisitions in the electronic and office automation retail sector.

ABSTRACT

In this research paper, business post-acquisition integration strategies and structures are introduced and discussed. Concepts are presented to demonstrate and support how formulation and implementation of these strategies and structures will safeguard smooth organisational change that will result in achieving synergy and value creation. Of paramount importance is that the activity of mergers and acquisitions enhances shareholder value and produce sustainable economic growth for the organisation concerned.

The aim of this research is not to give an overview or an abundance of examples and data of recent mergers and acquisitions, but rather to present a case study of a dominant South African furniture and white appliance retailer's post-acquisition integration process on assimilating two diverse acquisitions in the audio visual, electronic and office automation retail sector. The outcome is to present thoughts and insights on how the post-acquisition integration process should be organised, managed and implemented.

One of the main reasons that value is not enhanced through business integration by means of mergers and acquisitions is the fact that the wrong corporate strategies and business integration strategies are formulated and selected. Another important factor is inadequate post merger management, not capable of handling the integration process and the major changes that take place in the organisation involved in the process. It has been noted in this paper that in order to increase shareholders' value through M&A, a carefully planned and formulated strategy is critical and a proper post-merger management plan / action plan has to be drawn up, put in place, and implemented.

The twelve maxims for successful mergers and acquisitions are identified. It is established that M&A should be part of a planned strategic activity and the outcomes of acquiring a company should meet clear and measurable business objectives. Finding the right approach for success is critical to the process. Taking time to fully understand the acquired business properly, making changes at the appropriate speed, acknowledging and dealing with cultural issues, communicating both vertically and horizontally, motivating and rewarding key people in both organisations, and establishing consistent managerial controls and reporting are important issues that need to be addressed and dealt with. If not properly addressed and if the wrong approaches are taken, business integration will fail and value will be destroyed. What can be concluded is that an increase in the value of the parent company through mergers and acquisitions is heavily dependent on the chosen integration strategy and on establishing proper post-merger management to guide and manage the process to its successful end.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

DECLARATION

I declare that this research project is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

………………………………………. Date: 14th November 2006

Jose Vincento de Sousa

ACKNOWLEDGEMENTS

I am eternally grateful to:

- Margie Sutherland for guidance and support
- Henk Greeff for his willingness to share in his knowledge of the subject
- Rénier Krige for explaining the human resource issues and tabling the document for final approval by JD Group
- The Executive Board members of JD Group Limited for sharing their knowledge and their time
- The able assistance of the staff in the GIBS resource centre
- Raj Raina, as research project supervisor, for guidance, support and direction
- Khuselwa Pupuma for scheduling and co-ordinating all interview appointments

I would like to thank my company, Progress Software, and my superiors for allowing me the opportunity and supporting me in completing this work. In particular I would like to thank Rick Parry, Karl Campbell and Lin Steendjik for their support in this regard.

In addition I would like to thank my spouse, Laura, for her patience, tolerance and rock solid support through out the preceding two years.

Lastly, I would like to give praise to my Creator and Lord, Jesus Christ, who has blessed me with the ability and tenacity to see this research project to completion.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

TABLE OF CONTENTS

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

CEO – Chief Executive Officer
EXCO – Executive Team
IT – Information Technology
M&A – Mergers and Acquisitions
Steercom – Steering Committee

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

"We know surprisingly little about mergers and acquisitions, despite the buckets of ink spilled on the topic. In fact, our collective wisdom could be summed up in a few short sentences: acquires usually pay too much. friendly deals done using stock often perform well. CEOs fall in love with deals and don't walk away when they should. integration's hard to pull off, but a few companies do it well consistently." (Bower,Joseph 2001, p.93)

1.1. DESCRIPTION OF THE PROBLEM AND BACKGROUND

Mergers and acquisitions (M&A) are among the most dramatic and visible manifestations of strategy at the corporate level. With a stroke of a single deal, the strategic course of an entire organisation can be altered permanently. Acquirers can gain immediate access to new markets, technologies, products, distribution channels, personnel and desirable cost and market positions. Moreover, acquisitions can bring into a company capabilities the organisation finds hard to develop and can also provide the opportunity to leverage existing capabilities into much more significant positions.

The M&A phenomenon shows no signs of slowing and has long been embraced by the retail sector as a mode of expansion. Acquiring a firm is often seen as the easiest way to diversify. Potentially, it enables the firm to obtain immediately the full set of resources required for competitive advantage within an industry or industry sector. The idea of 'mega deals' is haunting the boardrooms of the world's largest companies. Every day new deals are announced, and various stakeholders greet these with reactions ranging from euphoria to scepticism.

- Announced on the 4th of September 2001 and finalised in May 2002, Hewlett Packard (HP) announced the acquisition of Compaq in a deal worth $25 billion.
- In 2005, Procter and Gamble acquired Gillette in a deal worth $54 billion.
- The Walt Disney Company announced in January 2006 the acquisition of Pixar in a deal worth $7 billion.
- October 2006 Google acquires Youtube for $1.65 billion

Mergers and acquisitions are justified by the extent to which they add value. Despite the important role which acquisitions play in most discussions on corporate strategy growth and expansions, a harsh reality underlies the fact that in M&A activities, regardless of industries, more than half of these transactions fail. Kay (1993) has summarized major studies about the performance of mergers and acquisitions and has come to the overall conclusion that "taken as a whole, merger activity adds very little value" (Kay, 1993, p.146).

However, none of this evidence should be interpreted as indicating that no merger is ever successful. But it is necessary to ask why so many mergers perform poorly or even fail completely. A study of A.T. Kearney has come to the conclusion that the post-merger integration phase bears the greatest risk in an acquisition (Habeck, Kröger & Träm, 2000). A study of McKinsey (Bekier, Bogardus & Oldham, 2001) has pointed out that many companies lose their revenue momentum after the acquisition as they concentrate on cost synergies or fail to focus on post-merger growth in a systematic manner. In fact, only 12% of the companies in the sample of the McKinsey study managed to accelerate their growth significantly over the three years following the merger.

Given the failure rate of mergers and acquisitions in an international context, evidence by a large number of studies undertaken by consultancy firms such as McKinsey, Boston Consulting Group and A.T. Kearney, it is not sufficient to identify the many reasons why they fail and why the value of the merged firm was significantly reduced or destroyed, but also what successful companies do differently from other companies once it is decided that growth and value creation should be achieved by means of mergers and acquisitions (Batelaan & van Essen, 2000).

A major mistake companies make is that they do not have a well-formulated strategy and have not defined a rationale for merging post-acquisition integration processes as defined later. Sound vision is often blurred by relentless pursuit for growth, leading to overestimating the company's resources and capabilities by inadequate management, resulting in an unsuccessful merger and acquisition process. "Some 78% of mergers are mistakenly driven by fit, not vision." Vision is the only true acid test to determine whether you are on the right track as you prioritize, execute and interpret the post-merger integration tasks. The tough lesson from merging companies around the world to learn is that fit flows from vision, not the other way round (Habeck, Max, Kröger and Träm 2000).

"Few businessmen are entrepreneurs; they are corporate animals motivated to rise even higher in the organization, and once at the top, their ambition is to leave their mark and make the corporation bigger, not more profitable, but bigger" (Hilton, 2003). What is important for management to keep in mind is that mergers and acquisitions should be part of a well-defined strategy that should lead to synergies and value creation and not fall foul of agency costs. Lack of leadership results in things not happening, with the result that value is destroyed as opposed to being created. “Leadership’s urgency is often neglected. Some 39% of all companies face a leadership vacuum because they failed to establish leadership as a priority” (Habeck *et al*, 2000). Poor communication, both internally and externally, leads to misunderstanding the business case and as a result a resistance to change develops in the various stakeholders particularly the employees of the companies concerned.

After having seen that mergers and acquisitions have become an integral part of business life on the one hand, and that more than half of mergers and acquisitions fail, primarily because of poor post-merger or post-acquisition integration strategy on the other hand, this study will put its analytical focus on the post-acquisition integration of two diverse companies into the structure of a large furniture and white appliance retailing company.

1.2. PURPOSE OF THE STUDY

The purpose of the study is to document the post-acquisition integration process and identify the mode of integration used. The process will identify whether the mode of integration varies according to a business unit’s need for organisational autonomy and strategic interdependence.

The focus of this study was chosen to better understand what happens when a dominant furniture and white appliance retailing company acquired two diverse business in the electronic and office automation retailing sector and subsequently had to decide about the transfer of management skills, retailing knowledge, resources, and ways of managing to improve the competitive position of their newly acquired businesses. Analysing these post-acquisition integration activities will involve considerable time and energy, and also require attention to detail. The aim is that this study leads to a framework for the post-acquisition integration of diverse businesses into the structure of a large corporation, as well as insights into the integration problems that executive management of the holding company and the diverse companies encounter when they try to combine their activities.

CHAPTER 2: LITERATURE REVIEW

2.1 OVERVIEW OF LITERATURE REVIEW

The literature review constitutes the base for the case study, but also provides the reader with a theoretical background to the subject of the post-acquisition integration process an acquiring company undertakes in the acquisition of two diverse companies. Further, the integration strategy and communication in the post-acquisition processes are discussed. The theoretical framework finally leads to research questions concerning process experiences in the post-acquisition process.

2.3 DIFFERENCE BETWEEN MERGERS AND ACQUISITIONS

Although the terms 'mergers' and 'acquisitions' do not describe the same thing, the growing literature in this field suggests that they are homogeneous in nature and typically have the same repercussions for the firm (Schweiger & Ivancevich, 1987). Therefore, the terms 'mergers' and 'acquisitions' are used interchangeably in most discussions. That is also the approach taken in the context of this study, in which the terms 'merger' and 'acquisition' will be used synonymously. Nevertheless, it is necessary to point out the specific differences and meanings of theses expressions. In a more technical sense 'acquisition' describes any transfer of ownership, where 'merger' describes a transfer of ownership in which one legal entity disappears into the other, or both entities disappear into a third entity created for the purpose of the merger (Lajoux, 1998). In other situations, the word 'merger' is used to mean the union of two companies of substantially equal size involving a high degree of co-operation and interaction, while the word 'acquisition' refers to the combination of a large company with a much smaller one.

2.4 POST-ACQUISITION OR POST- MERGER INTEGRATION

The terms 'post-acquisition' or 'post-merger' refer primarily to the art of combining two or more companies – not just on paper, but in reality – after they have come under common ownership. Integration refers to a combination of elements that result in wholeness. Moreover, integration occurs on several levels, e.g. by combining the accounting systems of the two firms or by creating a single legal entity. Other important issues may be the integration of physical assets, product lines, production systems, information technologies, or the cultural integration. Not all types of integration are always achieved or even necessary for acquired organisations to function. The necessary degree and field of integration are determined by a variety of contingencies which will be discussed at a later point in this study. Apart from that, it is necessary to mention that in the context of this study the general term 'integration' is not able to catch all dimensions, because the 'integration' of two diverse companies comprise two different aspects. On the one hand, this means the necessary degree of integration of the acquired company into the structure of the acquiring company in order to add value. On the other hand, this refers at the same time to the necessary degree of autonomy for the diverse companies to operate in such a manner as to ensure the future existence of the diverse companies' capabilities which made the acquiring company acquire it.

One of the key challenges in managing acquisitions is to ensure that acquisitions support the firm's overall corporate renewal strategy (Haspeslagh and Jemison, 1991), because in most cases acquisitions are strategic decisions that can both reinforce and change a firm's direction. Hence, acquisition decisions must be consistent with the firm's strategy. The acquisition activity to be analysed in this study aims at such strategic acquisitions, because the diverse company acquisitions to be analysed aim at reinforcing the acquiring company's current strategy.

2.5 POST-ACQUISITION INTEGRATION RESEARCH

This section defines post-acquisition integration and discusses the arguments and findings of existing research. Post-acquisition integration is the interactive and gradual process of strategic and administrative combination of acquiring and target firms (Shanley & Correa, 1992), in which individuals from the two organisations learn to work together and co-operate in the transfer of strategic capabilities (Haspeslagh & Jemison, 1991). The process is multidimensional, including the integration of financial, information, human resource, purchase, production, marketing and distribution systems, as well as planning and public relations policies (Yunker, 1983). During the integration process, managers have to mobilise each department to act together in a combined entity. Integration is the engine of organisational change and development in acquisition-based growth and plays a critical role in overall corporate renewal strategy. The process changes organisational structures, systems, cultures and functional activity arrangements (Pablo, 1994), not only at the point of the focal acquisition, but also throughout the corporation. It involves the post-acquisition reconfiguration (Karim and Mitchell, 2000), redeployment (Capron, Dussuage and Mitchell et al., 1998), and disposal (Capron, Mitchell and Swaminathan, 2001) of tangible (physical assets) and intangible (routines) resources of the acquiring and target firms.

Integration encompasses several forms of organisational structure:

(a) acquired may become a stand-alone after acquisition
(b) acquirer and the acquired may blend into a new organisation
(c) acquirer may assimilate the target

This classification of different approaches to integration mirrors that of Haspelagh & Jemison's (1991, page 145) categorisation, which is based on the need for strategic interdependence and the need for organisational autonomy. Sometimes, acquirers can avoid the problems associated with integration by keeping the acquired firm as an autonomously operating unit. It often is not feasible to follow this approach however, and most acquirers expect that the benefits from synergies are greater than the costs associated with integration. When the acquirer expects the acquired firm to contribute to long-term growth, the most general prescription is that integration is an important determinant of corporate performance and even survival.

2.6 INTEGRATION INVOLVES RETENTION, REDEPLOYMENT, RECONFIGURATION, DISPOSAL OF ASSETS

While the industrial organisation literature emphasises market power (Scherer & Ross, 1990) and cost savings (e.g. Dutz, 1989; Sirower, 1997) that may arise from acquisition strategies, the strategic management literature now commonly considers the acquisition process as a means to organisational change and development (Capron et al., 1998; Capron & Mitchell, 1999; Karim et al., 2000). The change process requires business reconfiguration, including redeployment and disposal of resources. Capron, Dussuage & Mitchell (1998) found that acquiring firms frequently redeploy – i.e. share and cross-utilise – R&D, manufacturing and marketing resources between themselves and the acquired firm. Acquirers redeploy managerial and financial resources, although to a lesser extent. The redeployment of resources can help create more efficient use of existing resources, as well as expand the scope of the firm's activities (Karim et al., 2000). Disposal of resources – reflected in retrenchment and sale of businesses and organisational assets – provides an important part of post acquisition reconfiguration (Capron et al., 2001). Overall, this body of literature demonstrates that acquiring firms have greater potential to change than do non-acquiring firms (Karim et al., 2000). Moreover, acquisition-based organisational change is unique for each acquisition. The nature of change and development in acquiring firms depends on the unique circumstances of strategic objectives and similarity between businesses surrounding particular acquisitions.

2.7 HUMAN AND ORGANISATIONAL FACTORS IN INTEGRATION

The human resources and organisational behaviour literatures delve into the human, managerial, and organisational processes that occur in the background of the process of resource addition and reconfiguration (e.g. Cannella & Hambrick, 1993). These literatures identify human and organisational sources of resistance to integration, and inform how managers can bring about anticipated post-acquisition performance improvements.

Indeed, human and organisational factors could have a greater impact on post-acquisition performance than do external strategic factors (e.g. Chakrabarti, 1990). Acquiring firms that underestimate the importance of human factors in the integration phase often face severe impediments to smooth post-acquisition operations (e.g. Fried, Tiegs and Naughton, 1996; Greenwood, Hinings and Brown, 1994; Schweiger and DeNisi, 1991). Research shows that acquisition announcements - especially in combination with poor handling of the communication - increase uncertainty, stress, and absenteeism, while reducing job satisfaction, commitment, the intent to remain in the new organisation, and perceptions about organisation's trustworthiness (Schweiger *et al.*, 1991).

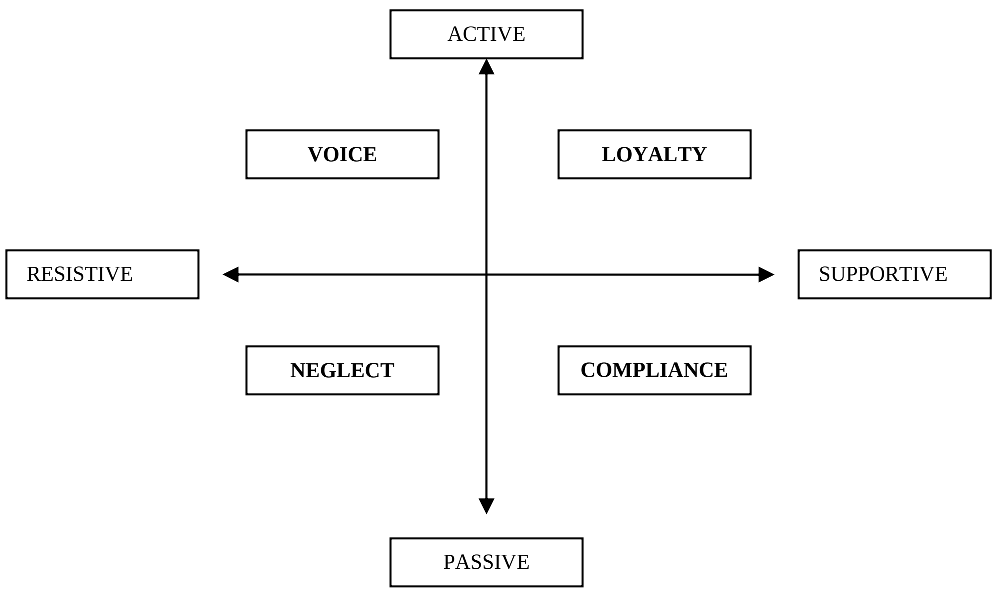
Post-acquisition changes often involve a forced reduction in the work force and structural re-design in order to cut cost and reduce workforce redundancy. The impact of such organisational change is particularly strong on employees who perceive that they lack control on the forces of change. Such employees are likely to feel a greater reduction in job control, experience feelings of helplessness, withdraw psychologically from the work they do, and generate an intention to leave the organisation (Fried *et al.,* 1996).

2.8 EMPLOYEE BEHAVIOUR

Bourantas and Nicandrou (1998) developed a conceptual framework (see Figure 1) with the aim to explain the behaviour of employees in the acquired firm after an acquisition. The model consists of two dimensions: supportive/resistive and activity/passivity. In the first dimension the employees will be supportive if they accept the changes the new management wants to implement. If they behave reluctantly and do not accept the new situation they will continually prove to be resistant. The second dimension deals with the relationship between the employees and organisation, which means the employee effort in terms of creating and maintaining relationships concerning the work environment in the post-acquisition process. They further argue that after an acquisition, employees can: support the organisation by working hard (*loyalty*), continue their job as before the acquisition (*compliance*), try to change things by expressing their opposition (*voice*), or reduce their effort (*neglect*). *Loyalty* and *voice* are seen as active behaviours and *compliance* and *neglect* as passive.

The *loyalty* act means that employees actively support the acquisition. The new organisation may be related to higher status and employees may see the acquisition as a potential opportunity for advancement, development, and new responsibilities. Employees that were less satisfied with the company or their work before the acquisition may see the acquisition as a rescue. *Compliance* as an employee behaviour in acquisitions implies that employees, in a passive way, support the acquisition. They accept the new situation as it is and continue working as if nothing has happened. Employees at lower levels may be indifferent about being acquired since the acquisition might have little or no affect on them. The *voice* behaviour includes active resistance toward the acquisition where the employees express negative feelings and reactions. The last behaviour, *neglect*, means that employees behave passively and resistant to the acquisition. This behaviour is common when employees believe that the unsatisfying situation coming with the acquisition is not going to change.

Figure 1: Loyalty, Compliance, Voice and Neglect: A Typology of Employee Responses to Acquisitions



Source: Bourantas & Nicandrou, (1998)

The *loyalty* and *compliance* behaviours are believed to contribute to the success of the situation created after the acquisition, whereas *voice* and *neglect* illustrate opposition to the acquisition. Individuals that have a positive view of changes, find it easier to accept the new situation. On the contrary individuals that have a negative perception towards changed circumstances will resist the change. Even if employees behave differently towards change they tend to relate themselves to each other. They compare their behaviour to other employees' behaviour and estimate the gain/loss of their behaviour compared to others.

2.9 INTEGRATION IN PRACTICE

The challenges in the process of integration arise out of the multidimensionality and diversity of the task. Integration involves the synchronised efforts of personnel associated with the finance, human resources, procurement and marketing areas. (Haspeslagh *et al.*, 1991; Lajoux, 1998; Yunker, 1983).

Integration of financial systems involves modifying the acquired company's corporate chart of accounts in accordance with the acquirer's master set of accounts. Usually, the acquirer's corporate chart of accounts has many more subdivisions and is more detailed and complex than that of the acquirer. Similarly, reporting forms and instructions are also likely to differ, with acquirers having a more detailed corporate schedule for reporting than the acquired has had experience with. Many post-acquisition problems arise from the direct or indirect mishandling of human resources (e.g. Fried et al., 1996).

Mismanaging the process of blending in corporate cultures or comparing two sets of employee relations policies, job descriptions, performance evaluation structures, salary structures, benefit plans, pension, medical insurance policies, and profit sharing plans – many of which differ significantly across firms – can lead to a clash of priorities, create ambiguities that cause resistance to change (Pritchett, Robinson and Clarkson 1997; Yunker, 1983), and therefore increase the probability of failure of the acquisition.

Procurement and marketing interfaces of acquirers and acquired firms often need to be integrated. Most commonly, different sub-units (e.g., business divisions) catering to different markets have their own procurement and marketing activities. Therefore, if the acquired firm operates in a different business area, it is likely to retain its own purchase and marketing teams. However, if the acquired firm is merged into an existing business unit with existing purchase and marketing teams, or if related products are grouped together and marketed by a common sales force, then the firm must integrate the resources of suppliers and sales representatives in order to avoid overlaps and subsequent confusion. In turn, the acquirer must also judge the effectiveness of its existing procedures and processes before making unilateral decisions.

The acquirer needs to review which industries and markets to operate in, and which goods and services to offer.

Post-merger integration is where expectations are fulfilled or broken. Merger and acquisition transactions design and transaction terms set the stage for this crucial phase of a deal. Failing to recognise integration issues at the bargaining table or in the analytic phase of the work can create enormous problems later on. More importantly, knowing what comes after the definitive agreement is signed is vital to the success of the deal.

2.10 COMMUNICATION

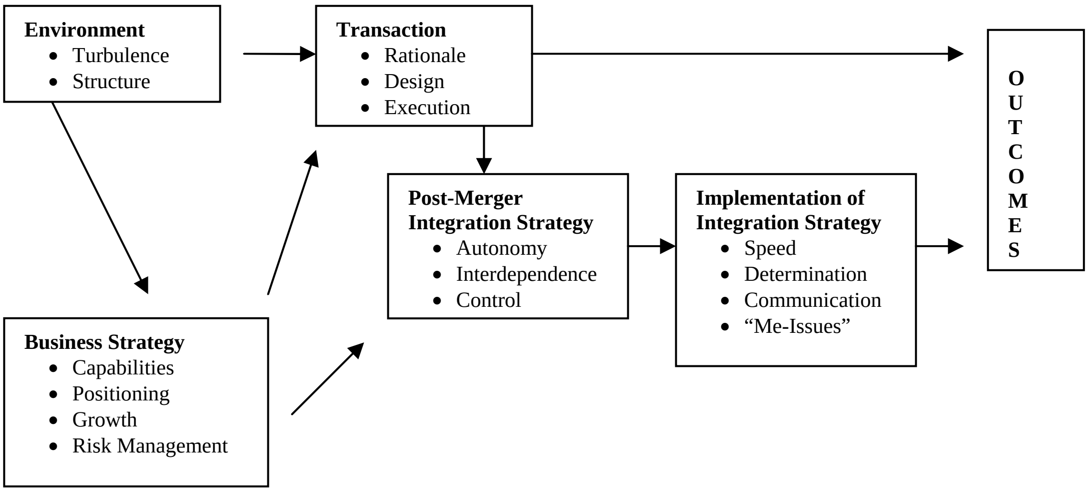
People resist change when they are uncertain about its consequences. Lack of adequate information fuels rumours and gossip and adds to the anxiety generally associated with change. Effective communication about change and their likely results can reduce the speculation and allay unfounded fears. It can help members realistically prepare for change. However, communication is also one of the most frustrating aspects of managing change. Organisation members constantly receive data about the current operations and future plans as well as informal rumours about people, change, and policies. Managers must think seriously about how to break through this stream of information. One strategy is to make change information more salient by communicating through a new or different channel. Where previously information was delivered by memos and emails, change information can be sent through meetings and presentations.

2.11 INTEGRATION STRATEGY

The integration task is chaotic, distracting, and stressful at the best of times. One needs strong guiding principles to stay on course and to achieve the targeted goals of the deal. Integration strategy should originate from the rationale for the acquisition. Integration strategy follows the business strategy. There is no simple blueprint appropriate for all acquisitions; indeed, there are a variety of approaches. If successful integration of the target is contingent on the characteristics of the deal, then starting with a clear sense of the aims of the acquisitions is vital to tailoring the integration. As the old saying puts it, if you don't know where you are going, any road will take you there. And there are many "roads" or strategic choices that the executive will face.

The key idea is that the business rationale for the acquisition will dictate important objectives, such as to improve efficiency, create new capabilities, and management of risks. In turn, these objectives will suggest important features of the organisational design for the target, linkages with the acquirer, and the elements of control. In their landmark study, Haspeslagh and Jemison (1991) illustrate two important dimensions of integration strategy: autonomy and interdependence. Bruner's (2004) study of integration suggests a third consideration, control. There maybe other important considerations. But these three suffice to illustrate the range of strategic choices and the thinking necessary to prepare integration strategy choices, and the thinking necessary to prepare an integration strategy, offers an overview of the approach (figure 2). One begins by reflecting on the environment, business strategy, and the rationale for the deal. Next, one assesses the range of choices about autonomy, independence, and control. Finally, one crafts a strategy that optimises the reach towards the aims of the transaction, subject to its constraints.

Figure 2: Role of Post Merger Integration in achieving Merger and Acquisition Goals



Source: Robert F. Bruner (2004)

2.11.1 AUTONOMY: CULTURE, LEADERSHIP AND DECISION MAKING

Genuine autonomy is more than the continuation of a brand name, a manufacturing plant, or head office. It resides first in the preservation of a culture, "the way we do things." Second, it is often reflected in the continuation of a leadership team. Third, autonomy is reflected in independence of decision making. Autonomy matters if the preservation of culture, leadership, and decision making are vital to achieving the strategic aims of the acquisitions. A high degree of autonomy might be warranted to preserve attributes that depend greatly on culture and leadership that understands unique know-how, such as a craft tradition (e.g., brewing beer), or creative skill (e.g., animated film production), or research and development capabilities (e.g., biotechnology laboratory).

Decisions about autonomy are among the most emotionally charged because they affect norms of power and culture. Avoiding the cultural friction post merger is probably not an alternative. A study by researchers at Bain & Company considered the impact of taking a proactive approach to dealing with cultural integration (i.e., versus ignoring culture).

Their results given in table 1, suggests that active attention to issues of culture and autonomy pays: companies that followed proactive integration strategies outperformed sector indexes and the do-nothing strategies. The researchers conclude that scale-driven deals (typically focused on improving efficiency), the successful acquisitions attended to cultural integration and did so by "imposing their culture on the acquired company; if they adjusted their own culture to accommodate that of the acquired company, it is only to a very small degree." By contrast, the best-performing acquirers in scope-driven deals (i.e., focused on broadening a product range) "gained ground in one of two ways: either by intentionally keeping the merged companies cultures separate by creating an altogether new culture. The key was the degree of overlap in the businesses. When there was significant but not complete overlap – in customer segments, for example – building a new culture was critical to achieving an organisational sum that was greater than its components parts. But when there was a very limited overlap, it made more sense to keep the cultures separate.

Table 1: Performance of Acquirers versus Industry – Sector Peers, Judged on Financial Indexes

	Scale-Driven Deals (e.g., Seeking Efficiencies)	Scope-driven Deals (e.g., Broaden Product Range)
Proactive approach to cultural integration post merger	+ 5,1%	+ 6,4%
Ignored cultural integration post merger	- 7,9%	- 0,5%
Strategies of successful acquirers	Impose the buyer's culture on the target company.	Either keep target company as a separate culture or create an altogether new culture.

Note: The numbers in the cells are percentage change in indexes of financial performance. The indexes were not further described by the authors.
Source of data: Till Vesting, Brian King, and Ted Rouse, "Should You Always Merge Cultures?" *Harvard Management Update* (May 2003), page 10.

2.11.2 INTERDEPENDENCE: BUSINESS PROCESSES AND VALUE CHAIN

How closely must the acquired company mesh with the acquiring company's value chain and business processes in order to attain the acquisition aims? A buyer pursing a careful strategy of vertical or horizontal integration might find the issue of interdependence to be vitally important – the extent of this importance will depend on synergies obtained through scale and scope.

2.11.3 CONTROL: FINANCE, QUALITY AND REPORTING

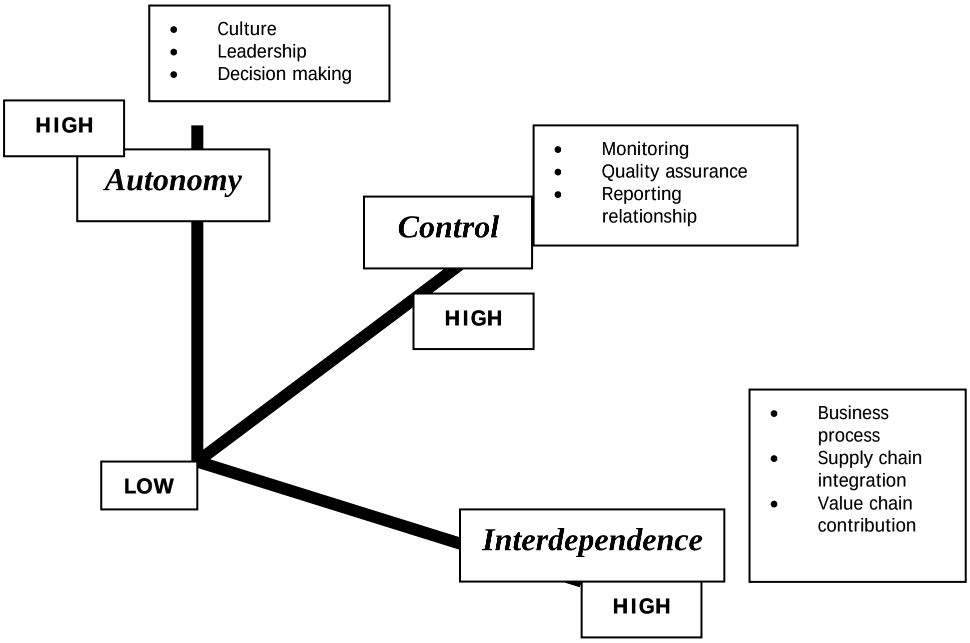
What are the strategic risks and how should they be managed? Risks controls typically appear in the imposition of new control systems that permit closer monitoring, faster response, and/or better hedging. It would be unusual for a buyer to believe that the target entails no risks; rather, the judgement here consists in identifying the risks, and assessing the adequacy of the existing risk control systems. A concern for risks might entail the appointment of CFO from home office, installation of a new financial reporting system, introduction of Total Quality Management, and application of the buyer firm's policies and procedures. In the instance of substantial risks (e.g., as with the target firm purchased out of bankruptcy), the changes might be wholesale.

Control deserved special recognition apart from autonomy and interdependence. It captures a dimension of merger integration strategy that is not easily grasped in the other two dimensions. A merging target firm could be granted high autonomy (because of the intrusiveness of these systems), or enhance it if the control systems work, they may encourage the buyer to leave the target alone. Similarly, the target could be tightly controlled without strong links of interdependence.

2.12 FRAMEWORK FOR INTEGRATION STRATEGY

Figure 3 arrays autonomy, interdependence, and control in three dimensional space, which suggests the rich range of choice in designing an integration strategy. Viewed this way, developing an integration strategy is a matter of thinking rigorously about these (and other) considerations. The answer to "What strategy is best?" will depend on the suitability of the strategy to meet the acquisition aims.

Figure 3: Spaces for Integration Strategy: Autonomy, Interdependence, and Control



Source: Robert F. Bruner (2004)

Bruner (2004) describes the four classic strategies in the following kinds of situations:

1. **Preservation:** Where the need for integration is very low, such as acquisitions of unrelated businesses, pure financially motivated deals, and cases where the need to preserve the entity is extremely high, as with creative artists or research boutiques with high specialised know-how.
2. **Confederation:** Where there is a need to control risks while preserving the unique qualities of the acquired company because of artists or researchers, or to maintain the traditional identity of the business for the sake of retaining a customer franchise.
3. **Linking:** Where it is desirable to maintain the culture of the acquired company but also to establish the acquiring company's control and link the acquired company to the acquirer's business processes and value chain. This is seen in vertical mergers and many horizontal mergers.
4. **Absorption:** Where the aim is to exploit economies of scale and/or to remove capacity out of the industry.

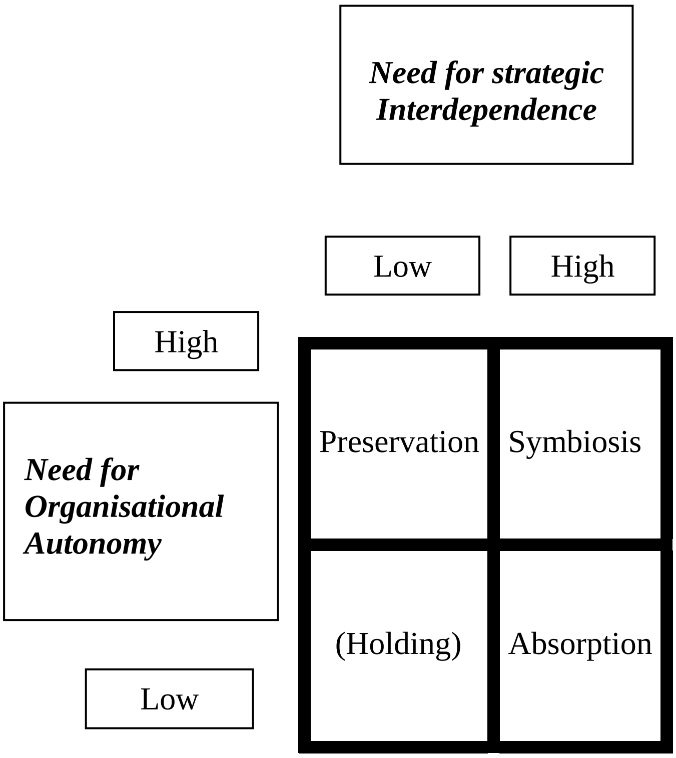
A particular merger might be a candidate for two or more strategies - the deciding factor in any choice amongst strategies should be the fit with the rationale for the merger. Also, numerous other strategies are possible. The main point is that one size does not fit all. Post-merger integration should be adapted to the situation and the strategic intent that motivated the transaction in the first place.

Phillipe Haspeslagh and David Jemison (1991) identified three types of acquisition integration approaches. These approaches to integration can be understood by considering two central dimensions of the acquisition. The first dimension is the relationship with the acquiring firm, which relates to the nature of the interdependence that needs to be established between the companies in order to realise the type of strategic capability transfer that is expected. The second dimension is the way in which value is expected to be created. This is associated with the need to preserve intact the acquired strategic capabilities after the acquisition. The following figure 4 positions integration approaches in light of the relationship between these two dimensions that vary according to a unit's need for organisational autonomy and strategic interdependence.

The easiest mode of integration to manage is an absorption, whereby an acquirer merely subsumes the acquisition into its existing structure. Typically this occurs when a large firm already active in a business acquires a smaller competitor to increase its overall scale.
When seeking to diversify through acquisition, a more common mode of integration is preservation. In this instance, the acquired company is more or less left alone to run itself as a discrete entity. Although easy to achieve operationally, this mode of integration begs the question of how value will be added to the acquisition. Haspeslagh and Jemison suggest that this mode is more useful as a way to upgrade corporate resources, when the acquiring firm seeks to learn by example from the acquired firm.
Most typically, if an acquirer attempts to inject its resources into an acquired firm, or vice versa, the integration involves symbiosis. In this process, the acquired and acquiring firms are melded together to form a new and different coherent whole. This clearly is the most difficult of the integration modes, and the one on which many acquisitions flounder. Conflicting styles and cultures, a feeling of winners and losers, and operational difficulties in joining systems and people make it extraordinarily difficult to affect this sort of integration.

According to Haspeslagh and Jemison, to work effectively, acquisitions require a gatekeeper who is responsible for managing the interface between the companies. In addition, important decisions have to be made concerning a number of trade-offs, including the speed of integration, equity versus qualification in personnel decisions, operational versus strategic focus in the short term, rationality versus symbolism in decision making, and top-down versus bottom-up decision making.

Figure 4: Types of Acquisition Integration



Source: Philippe C. Haspeslagh and David B. Jemison (1991)

Considering the existing post-acquisition integration literature, the work of Haspeslagh and Jemison (1991) is among the most prominent ones. The importance of post-merger integration becomes obvious in the following statement:

> *"Many acquisitions look great on paper. Yet, no matter how attractive the opportunity, value is not created until after the acquisition, when capabilities are transferred and people from both organisations collaborate to create the expected benefits or to discover others." (Haspeslagh & Jemison, 1991, p.11)*

Haspeslagh and Jemison (1991) adopt a process perspective in analysing acquisitions that shifts the focus from the acquisition's results to the drivers that cause the results. Value creation is considered as a long-term phenomenon that results from managerial action and interactions between the firms. From their point of view the transfer of capabilities will lead to competitive advantage or, in other words, value creation.

2.13 IMPLEMENTATION OF INTEGRATION STRATEGY

Without good implementation, the best of strategies go nowhere. The choice of integration strategy (e.g., between absorption, preservation, confederation and linkage) is typically made in advance of the public announcement of the deal, at the time when specific terms and social issues are being hammered out by the negotiators. Implementation is where intentions must be turned into reality. Thus, what follows the announcement of the deal are two phases of integration implementation: planning and execution.

2.13.1 INTEGRATION PLANNING

This phase ideally begins some time before the announcement of a definitive agreement, and aims to be concluded by the legal consummation of the deal. This lends an air of urgency to the integration planning process, as recounted by Claudia H. Deutsh (1999):

More companies are planning for integration even as they research deals. Well before an acquisition is closed, both companies are deciding whose compensation programs will survive, which offices or plants will close, which executives will run the combined business units or be primary contacts for customers, and how the integration process will be communicated to employees. They are fretting out potential culture clashes and designing training programs to combat them: in sum, they are creating detailed implementation plans, complete with milestones, for making the merger work – and fast.

Post-merger integration process begins when the integration leader is appointed. Usually this happens between the letter of intent and signing of the definitive agreement. In this phase, managerial appointments are announced, information technology platforms are chosen, efficiency programs are specified, and layoffs, if any, are sketched out. In most countries, including South Africa, it is not permissible to implement any of these plans until antitrust authorities / Competitions Board Tribunal gives permission.

- **Appointment of an integration leader and team.** The planning process necessarily starts with the identification of a process owner, someone whose interests are aligned with seeing the goals attained.
- **Communications.** The integration process should include communications with employees that impart a vision for the deal, progress reports, the role of the employees in the success of the integration planning, and future milestones.
- **Deadlines and work plan.** Target completion dates and lists of tasks to be completed form the essence of a project management approach to integration planning. Once established, these are easily tracked using information technology systems.
- **Retention of talent.** Too often, integration teams focus on the layoffs and redundancies necessary to achieve synergies and economies of scale from the combination. Less often do they consider the other side: retention of talent, key employees, and the knowledge base they carry with them. Key to retention efforts are decisions about compensation, titles, and work assignments.
- **Work Space.** The integration of office and plant space sends signals that may help or defeat integration. Size, location, and amenities are qualities of work space with which the integration planner can work.
- **Management information systems.** Information and reporting systems often reflect the structure of their firms: flat versus vertical; centralised versus decentralised; geographical-focused versus product-focused, and so on. Thus, dilemmas about optimising information reporting and control may well mirror larger issues posed in the design of the new organisation.

2.13.2 INTEGRATION EXECUTION

Starting shortly after consummation, the new organisation chart goes into effect, with new responsibilities and lines of reporting authority. New corporate identities are announced to the media. Technology platforms are established or converted, including e-mail, data processing, customer service, and telecommunication. The cost-savings and layoff programs are implemented. Each of theses activities will have a targeted completion ranging widely from a day or two, to possibly months. The progress in all of these activities is monitored through a detailed project management system.

The implementation of integration strategies shows a strong consistency among "best practitioners": successful implementations have in common, speed, determination, and good communication.

- **Speed and Determination.** "Speed" refers to the pace of execution. "Determination" is the adherence to the intent of a deal and the refusal to be distracted by politicking, unexpected problems, and so on.
- **Communication.** Communication is a key determinant of success. The objective of the communication efforts should be to combat issues such as fear, uncertainty, and doubt. It is suggested that senior leadership go beyond the immediate rationale to the real and sustainable sources of value they hope to unleash in the merger, they need to be aggressive and open in quantifying and communicating those sources of value to the vested parties – employees, customers, and shareholders. A truly shared vision for value creation:
    - Specifically identifies sources of value.
    - Sets high aspirations for financial growth and synergy.
    - Is shared by both companies' senior teams.
    - Is communicated broadly and constantly.

The main reasons for failure after the closing of a deal are described as follows by Batelaan and van Essen (2000):

- Integration of two unstable companies.
- No clear picture of what to do right after the closing.
- Over estimation of the overlap between the companies.
- Integration took place on an equal basis but there is no equality.
- No appointment of the right persons in the right place.
- Escalation of cultural differences.
- Under-estimation of IT-integration.
- No control over the integration costs.
- Time working against the organisation instead of in favour.
- No adequate reaction on hidden problems.

CHAPTER 3: RESEARCH QUESTIONS

3.1 RESEARCH PROBLEM

- Most acquisitions fail and there are few exceptions where an acquisition has contributed to an increase in shareholder value.

Where, given the failure rate of mergers and acquisitions in an international context, evidenced by a large number of studies undertaken by consultancy firms such as McKinsey, Boston Consulting Group and AT Kearney, it is not sufficient to identify the many reasons why they fail and why the value of the merged firms was significantly reduced or even destroyed, but also what successful companies do differently from other companies once it is decided that growth and value creation should be achieved by means of mergers and acquisitions (Batellan & van Essen, 2000).

- Those few successful acquisitions typically share significant synergies with the parent.

Where synergies between the acquirer and acquired are viewed as the near-term and long-term drivers of the acquisition, cost savings are achieved by reducing redundancy in support structures, leveraging the most appropriate systems, and standardisation of best practices. These structures, systems, and standardisation include human resources, information technology, legal, and financial systems. Additional cost savings and growth opportunities come from bargaining power as a group. Finding a synthesis between resources and markets (de Wit and Meyer, 2002) is essential for businesses to survive and adapt to changing environments.

- Understanding the post-acquisition integration process which leads to shareholder value creation.

Acquiring and merging involves more than just integration of management. The coming together of two companies should be handled as a single, co-ordinated process. Too many companies make the mistake of separating the major phases of a deal when in fact these phases are always interconnected (Pritchett *et al,* 1997). Increase in the value of the companies concerned is heavily dependent on the chosen integration strategy and on establishing appropriate post-merger management to guide and manage the process to a successful end.

- The focus of this research is the identification of the post-acquisition integration process of two distinct categories; category 1: where the parent shares significant synergies with the acquired company, and category 2: where few synergies exist between the acquirer and the acquired.

3.2 RESEARCH QUESTIONS

Based on the theoretical framework, research questions concerning the post-acquisition process were developed.

- What are the similarities in the post-acquisition process in the two cases?
- What are the differences in the post-acquisition process in the two cases?
- What are the levels of autonomy in the two cases?
- What are the levels of interdependences between the acquired companies and the acquiring company?
- What is the level of control exercised by the acquiring company on the acquired companies?
- How do executive managers communicate details of the acquisition to their employees?
- How were employees' "me issues" addressed?
- Integration issues: Does integration strategy flow from the business rationale for the deal?
- Integration implementation: What is the importance of speed and determination?

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION TO CASE STUDY RESEACH

Case study research excels at bringing us to an understanding of a complex issue or object and can extend experiences or add strength to what is already known through previous research. Case studies emphasise detailed contextual analysis of a limited number of events or conditions and their relationship. Researchers have used the case study method for many years across a variety of disciplines. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 2003 p. 13-14)

Critics of the case study method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings. Others feel that the intense exposure to study of the case biases the findings. Some dismiss case study research as useful only as an exploratory tool. Yet researchers continue to use the case study research method with success in carefully planned and crafted studies of real-life situations, issues, and problems. Reports on case studies from many disciplines are widely available in literature.

The methodology used for the study was the multiple-case study method, which is a qualitative research method. The multiple cases provide data to build a model from which a meaningful analysis was made.

4.1.1 QUALITATIVE RESEARCH

Qualitative research studies serve one or more of the following purposes (Leedy & Ormrod 2001). They can produce a description to reveal the nature of situations, settings, relationships etc, or an interpretation enabling the researcher to gain insights about the nature of a phenomenon, and so develop new concepts, or theoretical perspectives, about the phenomenon, or to discover problems that exist within the phenomenon. In addition, they allow for the verification of a researcher's assumptions, claims, theories or generalisations within the real-world contexts, and can provide a means through which a researcher is able to judge the effectiveness of particular policies, practices or innovations.

Qualitative research methods do not allow the researcher to identify cause-and-effect relationships but rather actions within a specific setting. While quantitative research attempts to control variables, qualitative research is open-ended and facilitates research opportunities that may lead the researcher into unforeseen areas of discovery (Holliday 2002).

The nature of post-acquisition integration is relatively complex and involves a multidimensionality and diversity of tasks within a variety of contexts. Qualitative research preserves chronological flows and shows that events lead to particular consequences. Qualitative research also leads to new findings and integrations and allow researchers to go beyond initial concepts to new conceptual frameworks (Miles & Huberman 1994).

4.2 THE CASE STUDY METHOD

In multiple-case study methodology, the researcher gathers extensive data on the phenomenon being studied and often interacts with the people being studied. Data includes observations, interviews, documents, past records and even audio-visual materials (Leedy and Ormrod 2001).

4.2.1 MULIPLE-CASE RESEARCH

The multiple-case sampling method is essentially a replication strategy where one is able to generalise from one case to another on agreement with underlying theory. In other words, a finding is more robust if it is shown that it holds true in one setting, and then holds true in a comparable setting, but does not hold true in a contrasting setting (Mile and Huberman 1994). Multiple-case sampling is a method of deductive reasoning where a range of similar and contrasting cases are studied to enable a degree of generalisation. The choice of cases is made based on conceptual grounds rather than representative.

4.3 SAMPLING

The objective of multiple-case samples is to be able to replicate the theory in different contexts and make deductions for generic theory (Miles and Huberman 1994). There is no consensus about the exact number of cases that are optimum, but Perry (2001) recommends a minimum of between two and four and a maximum of 10 to 15. The disadvantage with too few cases is the difficulty of generating theory with any degree of complexity and an unconvincing empirical grounding. With more than 15 cases, the problem becomes an unwieldy study that is complex, costly and difficult to assimilate. Perry (2001) also recommends about three interviews within each case, possibly at different levels within the organisation.

Sampling in qualitative research generally consists of samples of people nested within their context and studied in depth, unlike quantitative research, which aims for larger numbers of context-stripped cases and seeks statistical significance (Miles and Huberman 1994). For this reason qualitative samples are generally of non-probability type. The use of case-study techniques requires information-rich data, which is more important for analysis than the ability to make statistical inferences about the characteristics of the population. Generalisation about a population may still be made from the sample, but not on statistical grounds. The research was conducted by using purposive, or judgemental sampling to determine the cases and populations that would best answer the nine research questions (Saunders, Lewis and Thornhill 2003).

This study was limited to three cases, both of which are South African in origin but operate in different industries with an element of disparity in contexts to the acquiring company. Two companies were chosen as case studies, since each company is part of a diversification in the corporate strategy of the acquiring company. The acquiring company, JD Group Limited, the holding company, is in the furniture and white appliance retail sector (dependent variable), and the acquired companies, Hi-Fi Corporation (formerly part of the Profurn Group) and the Connection Group (operating the Incredible Connection and Photo Connection brands) (independent variables), operate in the electronics and office automation retailing sector.

The population sampled within the three cases included key employees who were at the appropriate levels within the organisations provided details and richness to the cases. In all of the cases the respondents where the senior executives responsible for the company acquisition strategy at the acquiring company and the senior executives involved in the post-acquisition process in the acquired companies.

It is not sufficient to simply look at the strategy formulation, there is a need to understand its implementation and assess its success. To gain an understanding of how the post-acquisition integration process manifested, it was necessary to interview the management responsible for execution.

Specifically the persons interviewed per organisation were:

- Mr Mias Strauss , Chief Executive Officer of JD Group Limited
- Dr Henk Greeff, Group Executive of Group Strategy
- Mr Matthew van der Walt, Chief Executive of Hi-Fi Corporation, at the time of the acquisition, Trading and Operations Director
- Mr Grattan Kirk, Chief Executive Officer of the Connection Group
- Mr Rénier Krige, Group Human Resource Executive
- Mr Ian Child, Chief Information Officer JD Group Limited
- Ms Annelize Lourens, Group Project Administrator at the time of the acquisition & merger
- Mr Gerald Völkel, Chief Financial Officer of JD Group Limited

4.4 DATA COLLECTION

The strength of a case study is the capability of using a variety of methods such as interviews, participant observation and field studies to gather information (Hamel, Dufour, and Fortin, 1993). The primary objective of data collection in qualitative research is to generate "thick" descriptions as opposed to "thin" descriptions. A "thin" description is simply a reporting of facts detached from any context such as intentions or circumstances. A "thick" description by contrast, provides the context of the experience and states the intention and circumstance that determined the experience in the first place. A "thick" description interprets the entire experience as a process (Holliday 2002).

Data collection in qualitative research is best done through a variety of data sources. Mason (2002) suggests that data may be garnered from people, organisations, institutions and entities, published and unpublished texts, settings and environments, objects, artefacts, media products and events and happenings.

In the research study several sources of data where used, including documentation (group annual report 2005 and 2006), published research and newspaper or journal reports and personal interviews at various senior levels in the respective firms.

According to Berg (2001) an interview is a conversation with a purpose, where the purpose is to gather information. Perry (2001) recommends that interviews conducted in case research must allow for deduction or confirmation/disconfirmation of the prior theory. It is recommended that the interview have two phases, first an unstructured interview with probe questions to provide a reliable framework for later cross-case analysis. Mason (2002) believes that a semi-structured interview is most typical of qualitative research and that the exact degree of structure or lack thereof is determined by the case and research problem. Too much structure has the disadvantage of stripping out the context and overlooking important underlying constructs. Too little structure may lead to too much superfluous information or selective, unreliable observations. A further problem arising from too little structure is the difficulty in conversing across studies without a common instrument (Miles and Huberman 1994).

All interviews where held at the respective corporate offices of the aforementioned interviewees, and for ease of future reference, interviews were video recorded. Interview duration varied from between forty-five minutes to an hour and forty-five minutes. A semi-structured interview format was used. A set of interview questions (appendix A) were used as part of the structured part, with a set of open-ended questions for the unstructured part.

4.5 DATA ANALYSIS

The analysis of qualitative research is probably the most difficult part of the qualitative research process, as it is not sufficient to focus on the methods of generating the data. Mason (2002) believes that it is equally important to concentrate on how the explanation was derived.

The raw data was examined using many interpretations in order to find linkages between the research object and the outcomes with reference to the original research questions. Throughout the evaluation and analysis process, the researcher must remain open to new opportunities and insights. The case study method, with its use of multiple collection methods and analysis techniques, provides the researcher with opportunities to triangulate data in order to strengthen the research findings and conclusions.

The analysis of the data produced from interviews and other sources was done according to steps for case study data analysis as recommended by Leedy and Ormrod (2001). The first step is to organise the details of the case – particulars of each case are arranged in some form of order together with a brief description of the firm and its context. The data generated, primarily through the interviews, is then categorised into meaningful groupings. The structure for the categorisation is derived from the prior theory and possible themes that may occur during the data gathering process.

Specific techniques included placing information into arrays, creating matrices of categories, creating flow charts or other displays, and tabulating the frequency of events. Researchers use the quantitative data that has been collected to corroborate and support the qualitative data which is most useful for understanding the rationale or theory underlying relationships. Another technique is to use multiple investigators to gain advantage provided when a variety or perspectives and insights examine the data and the patterns. When the multiple observations converge, confidence in the findings increases. Conflicting perceptions, on the other hand, cause the researchers to pry more deeply.

Following that, the interpretation of single instances – specific occurrences or documents – are examined for specific meaning that might bear a relation to the theory, and then evaluation of the data and the interpretation is made, looking particularly for underlying themes or patterns which could depict the case more broadly than any one single piece of data. The syntheses and the generalisation of the case made through conclusions and their implications beyond the case studied is synthesised through a cross-case analysis.

The cross-case analysis will emphasis and explain why differences occur, but within the context pf confirming or disconfirming prior theory (Perry 2001). The cross-case search for patterns, keep investigators from reaching premature conclusions by requiring that investigators look at the data in many different ways. Cross-case analysis divided the data by type thoroughly. When patterns from one data type are corroborated by the evidence from another, the findings are stronger. When evidence conflicts, deeper probing of the difference is necessary to identify the cause or source of conflict. In all cases, the researcher treats the evidence fairly to produce analytic conclusions answering the original “how” and “why” research questions.

4.6 LIMITATIONS OF RESEARCH

Case study research generally answers one or more questions which begin with “how” or “why”. The questions are targeted to a limited number of events or conditions and their inter-relationship. The interview questions were limited to the post-integration strategy in both cases, and the process of deducting the degree of similarities and differences between the two cases was carried out by the researcher. Limitations of qualitative research are often due to the relatively unstructured nature of qualitative research when compared to quantitative methods. Miles and Huberman (1994) argue that some of the weakness stems from qualitative methods beginning with wide, open-ended questions and the difficulty in defining the precise methods to be used at the beginning stages of the research design. The processing of interview notes, the interpretations of events by the researcher and the influence of the researcher’s values are issues that one needs to be aware of when evaluating qualitative research. In addition qualitative data collection occurs in specific situations within a social and historical context and requires a large amount of care on the part of the researcher. Demographics of subjects interviewed were white males between the ages of mid-thirties to late fifties.

For a qualitative study to be successful, a researcher must be well versed in the literature related to the problem so that he or she may be able to separate relevant information from the irrelevant details in what is observed. The researcher needs to be well trained in data collection methods as he or she is the essentially the main “measurement device” in the study. (Leedy and Ormrod 2001).

Limitations to the case study are that only senior executives were interviewed and no interviews were conducted with lower ranked employees. The conclusions deduced by the researcher are as a result of two case studies and therefore can not be used to generalise the findings to all cases of merger and acquisitions.

CHAPTER 5: RESULTS

5.1 COMPANY BACKGROUND

JD Group, a mass consumer financier, is South Africa's leading differentiated furniture retailer operating through nine chains in southern Africa and one in Poland. The group has a total of 1028 stores in urban and rural areas in southern Africa and 43 stores in Poland as of the 31 August 2006. Each chain is positioned in the marketplace in a differentiated way with a specific focus on a market segment, own brand identity and store layout, merchandise range and market profile.

Hi-Fi Corporation and Incredible Connection qualify as typical category specialists due to the focused product range they offer.

5.1.1 GROWTH

The JD Group has grown through acquisition since its inception as Price 'n Pride in 1983. Several acquisitions were made in the furniture retail sector throughout the nineties, including Abra in Poland in 1999. The acquisition of Profurn in 2003 was the last in the furniture retail sector and came under close scrutiny by the Competition Commission and Tribunal. It is doubtful that further major acquisitions in this sector will be permitted.

5.1.2 NEW DIRECTION

In 2004 JD group acquired a 27.5% stake in Blake and Associates, a leading debt collections solutions group. In 2005 they formed the Maravedi Group, a financial services alliance with Thebe Investment Group, a black empowerment partner, and Absa Bank. The Connection Group was also acquired in 2005; this business focuses on IT retailing, is mainly cash based and targets the higher LSM's. These new ventures are believed to be related to the JD Group's core strengths, but fall outside of the furniture retail sector.

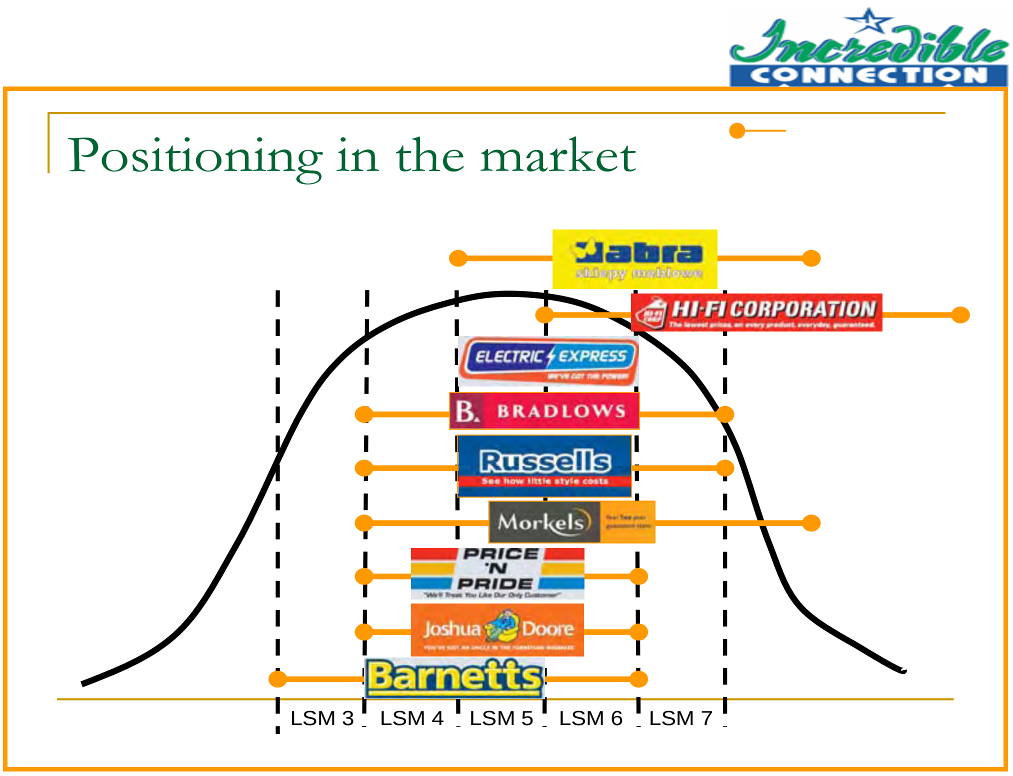
5.1.3 ADDING VALUE

All the retail acquisitions - apart from the Connection Group acquisition - were of businesses that were in trouble at the time, and could therefore be obtained at a discount. In each case, the JD Group planned to, and in fact managed to turn the business around, thereby adding value to the corporation. The Connection Group was acquired to grow beyond possible competition tribunal restrictions in the furniture sector, but also to tap in to expected growth in the IT (Information Technology) retail sector and the home office automation market.

5.1.4 POSITIONING

The JD Group has a mass merchandise focus and covers the mass middle market through its niine southern African chains. These chains are positioned in the marketplace in differentiated ways with each chain having a specific focus on a market segment, thereby creating a total coverage. A graphical representation of this positioning can be seen in Figure 5.

Figure 5: Brand Positioning



The JD Group focuses on LSMs (Living Standard Measure) 3 to 7. People below LSM 3 do not have enough disposable income to buy these products. People above LSM 7 do not need store-bought credit as they have access to other forms of credit. Store differentiation is achieved through brand identity, store layout, store location, merchandise range and market profile.

5.1.5 FINANCIAL PERFORMANCE

The JD Group is listed on the JSE Securities Exchange South Africa under Consumer Services - Retail: Home Improvement Retailers and on the Namibian Stock Exchange under the Retail sector.

Turnover constitutes sale of merchandise, finance charges earned on credit sales, financial services income from insurance products sold, and other income, viz. furniture club and delivery charges. Operating profits in 2004 grew by 40% and pre-tax profits by 47%. After a strong 2004, merchandise sales growth in the credit chains grew by a much slower 11% in 2005.

Volume growth remained robust as there was net deflation during the entire year. Gross margins were maintained in aggregate although there were minor movements within the chains. Despite a significant increase in hire purchase debtors during 2005, the group remained net debt free at year end.

The trend towards increased cash sales continued throughout 2005 although confined to those brands serving the middle income segment. This trend is expected to continue as more consumers become eligible to acquire bank funded credit cards and budget facilities and utilise this much cheaper form of financing at the expense of more expensive retailer finance. However, the brands servicing the lower income segments (Barnetts, Price 'n Pride) have not experienced these trends and their credit sales have remained around 90% of total merchandise turnover.

The Polish subsidiary continued to expand as it built critical mass. Whilst losses were still incurred, the business took advantage of the weaker economy (which has now recovered) to entrench its position as that country's largest retailer.

5.1.6 INTERNATIONAL ACQUISTIONS

The Abra group in Poland was acquired after the opportunity presented itself via a close relationship with a supplier in Europe. The developing Polish market is considered similar to the Southern African market, and in the long term the chain can be used to leverage into Eastern Europe. Western Europe is not seen as a potential growth target as the developed markets are significantly different from South African markets and the JD Group does not believe their competencies will translate well into these markets. An unsuccessful venture into the UK market in the early 2000's via the Danish franchise BoConcept informs the group's aversion to entering developed markets.

In addition, Africa is not seen as a potential growth market for similar reasons: the group operates on a model of extending credit to consumers and thus requires reliable, developed financial infrastructure before operating in any new environment. Uncertainty over the reliability of financial infrastructure in Africa has led the JD Group to steer away from this area.

5.1.7 COMPETITORS

JD Group's main competitors in the furniture retail sector are Lewis and Ellerine. JD Group is ahead of its competitors in terms of the percentage growth in revenue in the year to August 2004, showing a growth of 54% as compared to 30% for Ellerine and 11% for Lewis. Due primarily to the acquisition of Connection Group and Hi-Fi Corporation (formerly part of Profurn) the group has soon marked move (unclear) from credit sales to that of cash sales basis. Percentage of cash sales to revenue is closer to 50% as opposed to its competitors 16,9% (Ellerine) and 23% (Lewis). Although gross margin is within a narrow range of the competition, operating margin lags behind significantly. What can be deduced is that the move to cash sales has reduced margin in that profitability from financing is forgone.

The JD Group does not only see themselves competing in the furniture retail sector, but see themselves competing for share of pocket. After the recent introduction of new consumer credit legislation JD Group has positioned itself to compete more fully in the financial services market.

5.2 HI-FI CORPORATION

J D Group acquired the businesses of Profurn in 2003, of which Hi-Fi Corporation was one of the business units, by way of a scheme arrangement. Hi-Fi Corporation is the largest audio and visual warehouse in the southern hemisphere, retailing electronic goods and household appliances to the mid to upper end of the consumer market (equivalent to universal LSM 6 to 10) through 25 stores (November 2006) in South Africa and one each in Nambia and Botswana.

5.3 INCREDIBLE CONNECTION HOLDINGS

J D Group acquired the Incredible Connection Group in 2005. Incredible Connection is a retailer of office automation and information technology. The executive team (EXCO) at JD Group jointly determined the vision of the group. Since their last acquisition of Profurn, in the furniture and appliance retail sector, the group was prohibited in terms of an agreement reached with the Competition Board Tribunal that that was to be the last acquisition in the furniture and appliance sector.

The constraint laid down by government, required a re-think and setting up of a new organisation vision and future growth strategy. Since all members of the EXCO agreed that their own personal future together with that of the organisation was dependent on setting a "big audacious hairy goal". (Primary growth strategy is one of organic growth through differentiation. Global acquisitions are but a component thereof). A decision was taken to globalise the business. This resulted in setting a stretched vision that was to be captured in an ambitious aspiration to become a ***world-class company in their field of expertise***. The process used was a collaborative approach based on discussions with the EXCO and the various executive management teams from the eight brands. The vision formulation was a guided collaborative exercise together with strong leadership.

Based on the Competitions Board ruling, a decision was taken to acquire Incredible Connection Group, which was a diversification from the JD Group established line of product offerings.

5.4 INTEGRATION STRATEGY MINI-CASE:

ACQUISTION INTEGRATION OF HI-FI CORPORATION, 2003

In 2002, the executive management team of JD Group was made aware of an opportunity by an industry manufacturer of the possible acquisition of Profurn Group. The group was trading under financial difficulties and under serious threat of their bankers foreclosing on them.

With this opportunity in mind an investigative team was constituted to analysis the various business units operated by the Profurn Group. It was established rather early that a major rationalisation exercise would be necessary in order to salvage any part of the business. Hi-Fi Corporation was singled out as one of the more successful business units within the group and one that would add value to the JD Group. Two other brands that were also successfully retained from the Profurn acquisition were Morkels and Barnetts. Hi-Fi Corporation was unlike any of the other brands housed by the JD Group in that it was a retailer of electronic goods and household appliance, targeting the audio and visual segment as opposed to being a furniture retailer. The other major difference was that its revenues were generated on a cash basis as opposed to other business units within the JD Group where the majority of revenue generation was on a credit basis. Its revenues are spilt on an approximate 50:50 basis between retailing and financing.

In 2003 the decision was taken to acquire the businesses of Profurn Limited by way of a scheme of arrangement. The transaction was concluded in April 2003 at a cost of one billion rand. The following business units operated under Profurn: HI-Fi Corporation, Barnetts and Morkels.

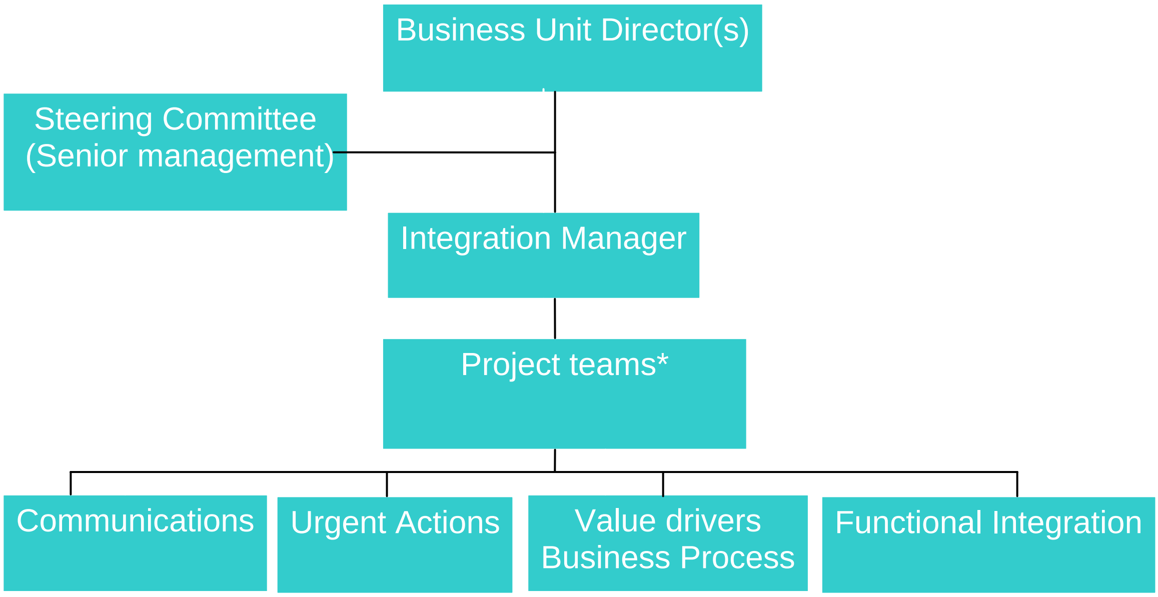
In any merger and acquisition, the sooner mangers integrate their companies the faster they capture the expected synergies. So in the hectic days and weeks after a deal is announced, the chief financial officer faces a daunting list of responsibilities, such as managing the deal’s financial aspects, justifying the strategy to investors, negotiating with regulatory authorities, and ensuring compliance with the regulations that come into force once a deal is announced.

The approach taken was one of project managing the integration of Hi-Fi Corporation, Morkels and Barnetts into the JD Group and discontinuing with some of the other brands. In hindsight a major factor contributing to the success of the integration of the business unit was attributed to the process being project managed. In the experience of the JD Group, establishing a project management team to support integration efforts before a deal closes has helped speed up the completion of critical tasks and improves the chances of capturing the acquisition synergies. Working under confidentiality agreements, such a team has unrestricted access to data from the company involved. After completing and analysing this information, the team can quickly deliver aggregated findings that help decision makers plan the structure and operations of the acquired entity even before the deal has closed. After the official announcement of the acquisition some fourteen projects were constituted by the project management team; this involved not only the Hi-Fi Corporation business units but also other brands within the Profurn stable. A steering committee was formed that met without fail every Monday morning to report on the progress of the various projects. A crucial element to the success of these meeting was the involvement of senior executive management, with the chief executive officer of the JD Group and those of the various business units in attendance. Decision making was made rapidly and efficiently as all vested parties where available to comment, decline or ratify decisions without undue delays.

Due to the financial situation of Profurn, the expectation was that the integration process was to be done as soon as possible. The optimum was that the integration process with be completed within financial year of announcing the acquisition. The project was viewed as successful having taken only nine months to complete.

Executing and implementing the post-merger management plan was the main task of the project organisation, shown in figure 6, which operated as a separate unit alongside the firms concerned and was composed of cross-functional teams or task forces managed by the integration manager. The business unit directors held the overall responsibility to successfully integrate the businesses. A steering committee comprised of senior management of both firms monitored the process, provided direction and made the appropriate changes when needed. Fourteen project teams were constituted, which reported directly into the integration manager, who was mandated by the executive management team to carry out the integration process.

Figure 6: Project Organisation of post merger management process

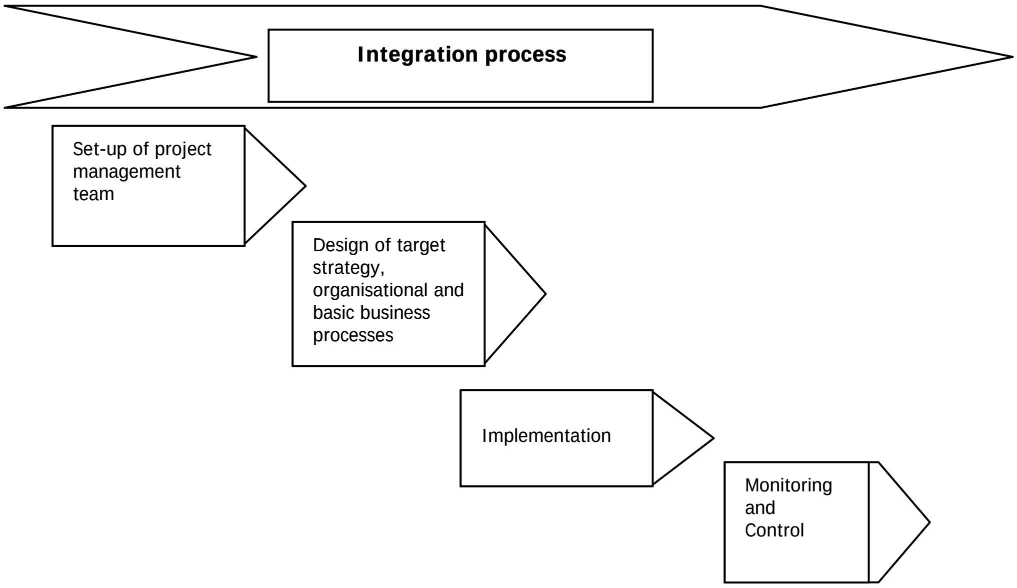


* Fourteen project groups where constituted

Source: authors own

Figure 7 depicts the steps to the integration process; first, constituting the project management team and establishing the various roles and responsibilities and reposting lines. Secondly, based on acquisition rationale targets and objectives are formulated. Organisational and basic business processes are mapped out. Thirdly, the project team implement the integration process. Finally, the process is monitored and controled, where any exceptions or deviations are reported and resolved.

Figure 7: Steps of post-merger process



Source: adaptation Roland Berger Strategy Consultants (1999)

The challenges in the process of integration arise out of the multidimensionality and diversity of the task. Integration involves the synchronised efforts of personnel associated with the finance, human resources and various other departments. Integration of financial systems involves modifying the Hi-Fi Corporation chart of accounts in accordance with the JD Group accounts control manual.

A strategic decision was made not to enforce a credit chain culture at the time of acquisition, but instead to allow the Hi-Fi Corporation to maintain its own culture as a category specialist, cash-driven business with different merchandise and a different trading formula. Many post-acquisition problems arise from the direct or indirect mishandling of human resources; one of the main objectives was the alignment of practices and policies with regard to good governance. Where mismanaging the process of blending in corporate cultures was averted, was by strategic decisions taken, while the process of comparing two sets of employee relations policies, job descriptions, performance evaluation structures, salary structures, benefit plans, pension and medical insurance policies were addressed. In the case of Hi-Fi Corporation a policy of a thirteenth cheque was introduced in line with the JD Group remuneration policy.

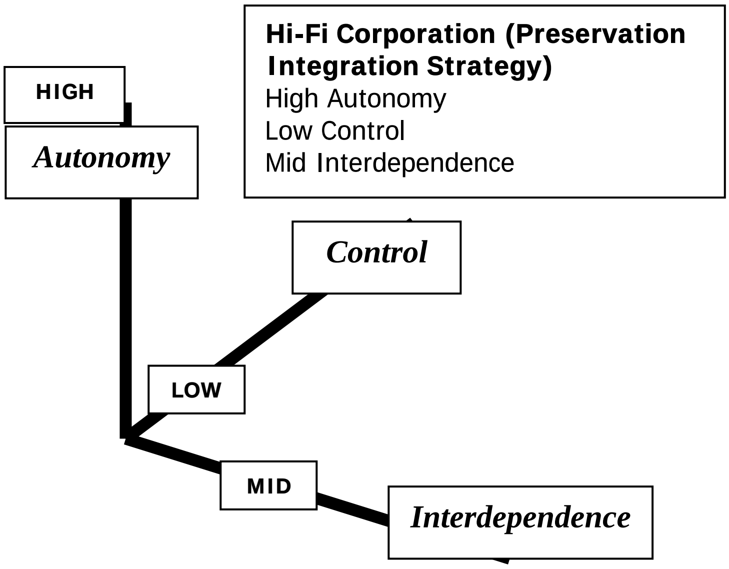
Hi-Fi Corporation operated in a business area different to that of the traditional JD Group furniture and white appliance credit chains, as a category specialist in electronic audio visual, office equipment and household appliances, and therefore retained its own purchasing and marketing teams. However, shortly after acquisition the business unit entered what the group called the Third Life Cycle Programme, and Hi-Fi Corporation's success and growth rate triggered a re-look at how to build greater efficiency through business process automation and re-alignment of the organisational structure to prepare for its next growth life cycle. This included the automation of logistic back-end, improving stock delivery from warehouse to stores, and doing away with a manual stock issuance system. A centralised warehouse using fully automated advantage hi-tech, was acquired to replace the number of dispersed stock holding facilities. A sophisticated radio frequency barcode warehouse location system was implemented at Hi-Fi Corporation. This enabled the streamlining of the supply chain within Hi-Fi Corporation. This has drasticly reduced the stock discrepancies experienced in the past.

With regard to the degree of autonomy allowed by the JD Group to the management of Hi-Fi Corporation in managing post-acquisition operations, the overriding objective was to allow the company sufficient autonomy so that they could continue to remain a successful operation. The idea was that the very essence that made them successful should be nurtured without smothering the vital entrepreneurial spark that existed in the organisation. Autonomy in the context of acquisitions can be described as the amount of day-to-day freedom that the acquired management is given to manage its business. This understanding of autonomy implies that management of the acquired firm has the freedom to influence events and make day-to-day operating decisions without close control by the acquiring company.

The overriding objective was that the Hi-Fi Corporation would be allowed autonomy so as to successfully operate in a high volume, mass middle market cash driven business. A degree of flexibility is offered within an accepted governance framework. The trading formula was not tinkered with, but a degree of structure was added. With various policies and procedures implemented, in particular with regard to the mitigation of risks associated with the cash nature of the business.

Figure 8 depicts the levels of autonomy, interdependency and control exercised by the JD Group over Hi-Fi Corporation. The level of autonomy is high as the acquired business has a substantially different business model to that of the parent. Levels of interdependency are considered to be mid-range, as the business unit has centralised human resource, , payroll and finance functions, and the establishment strategic direction, all other functions are carried out by the business unit.

Figure 8: Integration Strategy on the Dimensions of Autonomy, Interdependence, and Control – Hi-Fi Corporation



Source: Robert F. Bruner (2004) adapted

Preservation Approach

- High need for autonomy and low need for interdependency
- Acquired companies are managed at arm's length
- Value creation to offset acquisition price
- Ability to bring funding to the acquired company
- Nurturing the acquired company
- Learning from the acquired company

Drivers for Successful Integration

- Speed
- Eliminate uncertainties
- Clear goals and objectives
- Communication is vital
- Create employee understanding and buy-in
- Shift the focus on achieving growth
- Establish the leaders
- Take out cost redundancies
- Turn the course for growth
- Establish incentive systems for good results and ideas

5.5 INTEGRATION STRATEGY MINI-CASE:

ACQUISTION INTEGRATION OF INCREDIBLE CONNECTION, 2005

In 2005, a formal offer was made to the shareholders of Connection Group Holdings, a company listed on the Johannesburg Stock Exchange (JSE), by JD Group Limited. This offer followed an extensive due diligence process undertaken by the JD Group. This offer to purchase the entire issued shares for R516 million, was a based on a strategic decision by the board of JD Group to partially diversify from their existing business units. The group had operated primarily in the furniture credit chain business, whereas Incredible Connection, headed by Grattan Kirk, operated a strong dominant brand in the technology and electronics retailing sector. The other point of difference was that this was a cash business. The JD Group diversification was along two lines: one away from the product category furniture and white appliance business, and secondly away from the credit / financing business model. The major shareholders in the group being the likes of Old Mutual, Sanlam and Liberty and minor shareholders voted in favour of the resolution to sell their shareholding to JD Group. The effective acquisition date was 1 December 2005, therefore financial information as per annual financial statements for the year ended 30 August 2006 are for a nine month trading period.

The only visible change has being change to the constitution of the company board, where previously the board of directors consisted of two executive directors, an independent chairman, vice chairman and three other non executive directors. The current board, post acquisition is that of two executive and four non executives' directors. The out-going chairman was replaced by David Sussman as non executive chairman (also chairman of JD Group). Mias Strauss replaced another non-executive director (also chief executive officer of JD Group). The company staff component remains at about twelve hundred with no significant change.

Connection group regarded itself as an independent listed retail organisation having established a free-spirited independent brand and strategy. The Connection group consisted of thirty seven Incredible Connection stores and seven Photo Connection stores. The Photo Connection stores have since been disposed of. The initial concern among both the executives and non-executives directors was around the issue of maintaining the entrepreneurial spirit in the business. Their reservation was centred on how much intervention would be made by the acquirer. What was the proposed integration strategy?

Assurance was given up-front that the current executive management team would continue to hold the responsibility for the day-to-day running of the business. Integration strategy was one of preservation, as the acquirer had faith in the existing management team of Connection Group. To the extent that the decision was taken that the current head office would continue to remain in Rivonia and not be incorporated into the JD Group head office based in Braamfontein. Furthermore, since this was a new business model for the JD Group, it was not their intention to interfere in the business operations. It has been categorically stated that as long as the executive management team of Incredible Connection deliver on agree performance criteria there will be no form of intervention from the acquirer. These assurances firmly concreted the degree of autonomy that the executive management team of Connection Group were to enjoy under its new shareholders. JD Group brought on a supportive role, and has proved to be an excellent sounding board for the executive team of Connection Group. Unlike its previous shareholders who did not operate in the retail sector, they where unable to contribute to the thinking on retail strategy and positioning. JD Group in a non-interfering or meddling kind of way, have offered sound advice based on their extensive retail experience. All decision making is done in a collaborative approach and never enforced.

The post-acquisition integration was described as totally smooth and swift. Connection Group viewed this as partially due to the nature of the state of the business acquired by JD Group. Where unlike previous acquisitions made by JD Group where the business was in a poor financial state of affairs and even possibly on the verge of bankruptcy, Connection Group was a financially sound business listed on the JSE. Incredible Connection was firmly positioned as a technology and electronics brand, which was viewed to have immense potential in the fast-growing consumer market, particularly in the up and coming mass middle market. A market well understood by the acquirer.

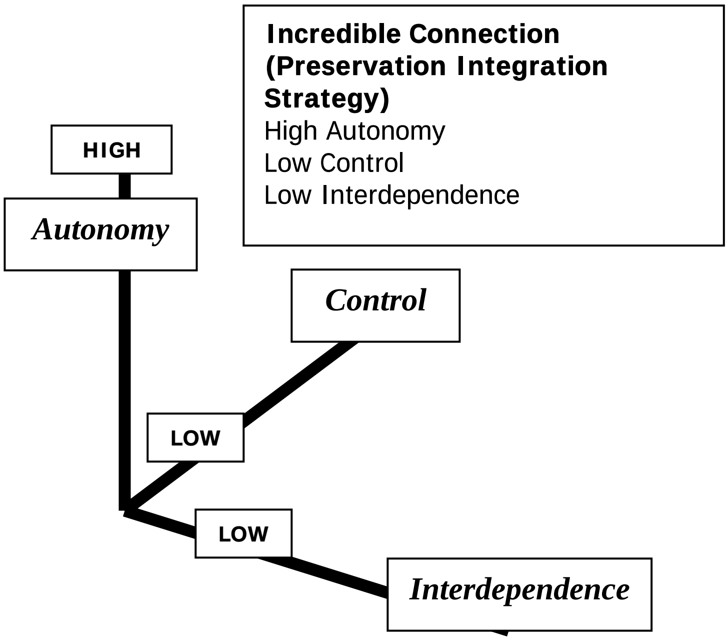
From the point of view of the acquired, JD Group took a leap of faith, as they bought a business with limited inherent understanding on how the business worked. Sure they had retail experience in the furniture and white appliance which in many respects is extremely different from the retail of technology and electronic goods. Another major difference was that unlike most of their business units with the notable exception of Hi-Fi Corporation, their business revenues are generated on credit. Incredible Connection was a cash business, and with that come the issues of security, cash management and a different trading formula.

As part of the post acquisition process a project management team was constituted in a similar structure to that used in the Profurn acquisition (figure 6). The purpose of this team was to ascertain the level of corporate governance, review compliance issues and the possible harnessing of any synergies that may exist between the two businesses. Steering committee meetings where held for a period of about four months after which they served their purpose. The Incredible Connection business runs independently with no interdependencies on the parent company. As a retail business the company structured around six pillars: operations, marketing, merchandising, information technology, finance and human resources. All these functions are carried out independently of the parent company. As for the harnessing of synergies, which include leveraging of existing supplier relationships to achieving better pricing, negotiating future retail space or re-negotiating an existing lease, this is done from the backing of a group structure as opposed to a single business unit. The acquired has benefited, for example from better priced banking services, rental rates on newly negotiated leasing contracts and improved telecommunication rates as a result of being a subsidiary of a tier one customer to Telkom.

The only form of control exercised by the parent company is in the form of finance. Budgets are presented to the JD Board and accepted on the basis that they meet the required hurdle rate, expected growth, operating margins and contribution to the group. Revenue figures are reported to JD Group on a daily basis. Monthly exco meetings are held where management reports are tabled, with Mias Strauss (non executive / CEO JD Group) in attendance. The business is monitored by exception, in particular the variation of actual to budget. A quarterly board meeting is convened and chaired by David Sussman (Chairman JD Group) with Mias Strauss in attendance.

Depicted in figure 9 is the high level of autonomy enjoyed by the Incredible Connection the business unit exists on its own, having substituted shareholders. Since genuine autonomy is more than the continuation of the brand name or the fact that the company continues to have its own head office in Rivonia, but in the fact that that they retain “the way we do things” preservation of their culture. This is further reflected in the continuation of the leadership team. There is a low level of interdependency between the two organisations to the extent that all functions are retained by the Incredible Connection. Level of control is classified as low as there is no day-to-day intervention by the JD Group. The extent of monitoring and controlling is carried out by variation reporting. Annual budgets and forecast are compared to actual.

Figure 9: Integration Strategy on the Dimension of Autonomy, Interdependence, and Control – Incredible Connection



Preservation Approach

- High need for autonomy and low need for interdependency
- Acquired company managed at arm's length
- Value creation by pursuing growth market (technology)

Drivers for Successful Integration

- Eliminate uncertainties up-front
- Trust, faith and confidence placed in executive management team
- Shifts the focus to achieving growth in booming consumer middle market
- Establish the brand leadership

5.4 VALUE CREATION

Before evaluating whether or not the acquisition has added value, it worth mentioning the various motives considered to add shareholder value:

- Economies of scale: This refers to the fact that the combined company can often reduce duplicate departments or operations, lowering the costs of the company relative to theoretically the same revenue stream, thus increasing profit.
- Increased revenue / increased market share: This motive assumes that the company will be absorbing a major competitor and double its power by capturing increased market share to set prices.
- Synergy: Better use of complementary resources.
- Geographical or diversification: This is designed to smooth the earnings results of a company, which over the long term smoothes the share price of a company, giving conservative investors more confidence in investing in the company.

However, this does not always deliver value to shareholders, as diversification may hedge against a downturn in an individual industry, it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolio at a much lower cost than those associated with a merger.

Profurn was acquired for R1 billion in April 2003, and since the price paid was not disclosed for each individual business unit, in order to analysis the extent to which value has been created in the acquisition of Hi-Fi Corporation, it is necessary to include the results of the two other brands in the calculation, namely Morkels and Barnetts. The spreadsheet below (Table 2) shows the operating income of each business unit and the respective operating margins before and after corporate taxation. Return on investment and payback period is calculated. Return on investment has improved year on year with a return of close to 50% for 2006. The payback period was calculated at just less than 30 months.

Other measures of assessing value creation is tracking the share performance, earnings per share, return on closing shareholders' equity, return on average shareholders' equity, return on managed assets and the closing price of the share at end of financial year. A summary of ratios is listed in table 3. The 2006 group results indicate that revenue is up by 20% with Hi-Fi Corporation contributing 24,1% and Connection Group contributing 12,4% of the groups total revenue. Operating profit was up by 15% in 2006 to R2.024

billion of which Hi-Fi Corporation contributed 9% and Incredible Group 4% to group operating income. Headline earnings per share in 2006 was up by 18% to 823,5 cents. However the share price closed at 6890, down from the previous years closing share price of 7400 cents. This can be attributed to the fact that the chairman in his report commented that the furniture retail market is expecting a melt-down in the coming year as well as the impact of the introduction of the new National Credit Act.

Table 2: Financial Performance of Hi-Fi Corporation, Barnetts and Morkel 2003-2006

(figures in millions)		HI-FI CORPORATION	Barnetts	Morkels	Combined
2003 (5 months)					
Operating income		73	41	63	177
Operating Margin %		12.8%	18.6%	18.9%	
Operating income after tax Tax rate 30% (O.I. x 70%)		51	29	44	124
2004					
Operating income		271	136	184	591
Operating Margin %		15.1%	20.8%	19.9%	
Operating income after tax Tax rate 30% (O.I. x 70%)		190	95	129	413.7
2005					
Operating income		237	218	214	669
Operating Margin %		12.2%	28.5%	21.3%	
Operating income after tax Tax rate 29% (O.I. x 71%)		168	155	152	474.99
2006					
Operating income		183	258	255	696
Operating Margin %		9.0%	29.3%	22.8%	
Operating income after tax Tax rate 29% (O.I. x 71%)		130	183	181	494.16
Return on investment		**2003**	**2004**	**2005**	**2006**
Operating income after tax divided Cost of Investment	5 months p.a.	**12.39%** 29.74%	**41.37%**	**47.50%**	**49.42%**
Payback period	**28.6 months**				

Source: Gerald Völkel CFO

Table 3: JD Group five year review

		12 months 31-Aug 2006	31-Aug 2005	31-Aug 2004	31-Aug 2003	31-Aug 2002
Share performance						
Total shares in issue	000	178,000	175,500	172,000	166,830	112,730
Headline earnings per share	cents	823,5	704,7	518,5	340,5	226,5
Net asset value per share	cents	3160,5	2708,8	2297,0	2033,0	1715,1
Profitability						
Revenue	R m	11,939	9,933	9,056	5,966	4,083
% increase in revenue year on year		20%	10%	52%	46%	
cumulative % change	5 years	192%				
Operating income	R m	2,024	1,760	1,256	747	467
Income attributable to shareholders	R m	1,457	1,215	784	449	241
Return on closing shareholders equity	%	25.9	25.5	19.9	13.2	12.5
Stock Exchange performance						
Closing Share price	cents	6890	7400	4550	3161	1675
% change in share price year on year		-7%	63%	44%	89%	
cumulative % change	5 years	311%				

Source: JD Group Annual Financial Report 2005 updated 2006 Financial Results published Business Day, Tuesday, November 7 2006

Table 3 five year financial review covers the period pre and post acquisition of Profurn. 2003 figures include five month trading results of the former Profurn business units and nine months trading results for Connection Group in 2006. The group has shown tremendous growth in revenue since the acquisition of Profurn. Similarly, of the 20% increase in revenue in the 2006 financial years, 50% is attributable to the inclusion of Connection Group (9 months). Without a doubt the acquisitions have added value to the JD Group shareholders this is reflected in the percentage increase of the closing share price over the past five years, the share price having increased by an impressive three hundred and eleven percent.

As it is too soon to gauge the effect of the Connection Group on the JD Group share price, one can look at the return for the 9 month period. The operating profit for the nine months was R83 million before tax. The return on investment after tax, calculated on the purchase price of R516 million less R21 million from the proceeds on disposal of Photo Connection equates to 15,87% annualised. The board feel that Incredible Connection acquisition has certainly lived up to expectations. The business enjoys a unique position in its market which is being managed by a dedicated and energetic young team. A return of 15,87% annualised after tax is better than the single digit (8-9½%) pre-tax depositary rate offered during 2005/6.

Cash generated by operations for year ended 31 August 2006 of R1,489 billion a 12,2% increase on prior year. The Group's cash and cash equivalent at the end of the 2006 financial year equals R1,617 billion.

In determining the creation of market value, one needs to think like an investor, which means harnessing the perspective of the providers of capital. The creation of market value is measured straightforwardly by the change in share value, net of changes in the stock market.

CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 INTEGRATION STRATEGY

The type of integration strategy adopted by JD Group in both cases is identifiable by Haspeslagh and Jemison (1991) as the so-called **preservation acquisition** in which a high need for autonomy and low need for interdependence among the acquired firms exist. Where in both cases, the primary task of management is to keep the business model intact, because a change in the acquired company's way of managing, practices, or even motivation would endanger success, and the capabilities require protection from the embrace of the acquiring organisation. It is well understood by the board of the acquiring company that the trader mentality in the cash business is significantly different from that of the credit chain business. The overall strategy is to manage the acquired operations at arm's length beyond those specific areas in which interdependence is to be pursued. In the case of Hi-Fi Corporation interdependences are primarily: centralised finance function the standardisation of human resource practices and centralised payroll and the adoption of policies and practices associated with good governance following the listing requirements as set by JSE.

In addition, Haspeslagh and Jemison (1991) argue that, according to the preservation concept, the main benefit is to be derived from the ability to bring funding to the acquired business, as was the explicit case in the Hi-Fi Corporation case. Moreover, they identified four basic tasks by which a preservation acquisition can be characterised:

- Continued boundary protection is considered as being the first fundamental task in preservation acquisition. This aims at preserving a distinct culture in the acquired; capabilities are embedded and remain unchanged. In both of cases, Hi-Fi Corporation and Incredible Connection, an entrepreneurial, cash-driven business culture prevails which is in stark contrast to that of the credit chain culture in the other business units within JD Group stable
- The second task consists in nurturing the acquired company, because the value that is directly created in this kind of acquisition stems from potential for accelerated business development. In both cases, post the acquisition, both companies have grown organically. Hi-Fi Corporation has grown from its initial sixteen stores on acquisition to twenty five stores as at November 2006. The group is projecting to open at least 10 more stores in the next four years.

Incredible Connection is opening five stores in November 2006 and a projected three store during 2007.

- The third task is to accumulate learning about and from the business. First, the management group of the acquiring company tries to learn from the industry as a prospective new business domain. Hi-Fi Corporation was the first cash-driven business in a group which had been exclusively a credit chain.
- The fourth task is closely related to the third one. This task involves championing resource commitments to that new domain of business and to combine them with internal development projects. The unlocking of synergies, for example the negotiating of new retail space. As a group there is greater leveraging power with potential landlords. Banking facilities are better negotiated on a group basis as opposed to individual business units.

In trying to summarise the goal of the preservation acquisition, one may conclude that the major integration task is to establish the proper gate-keeping structure.

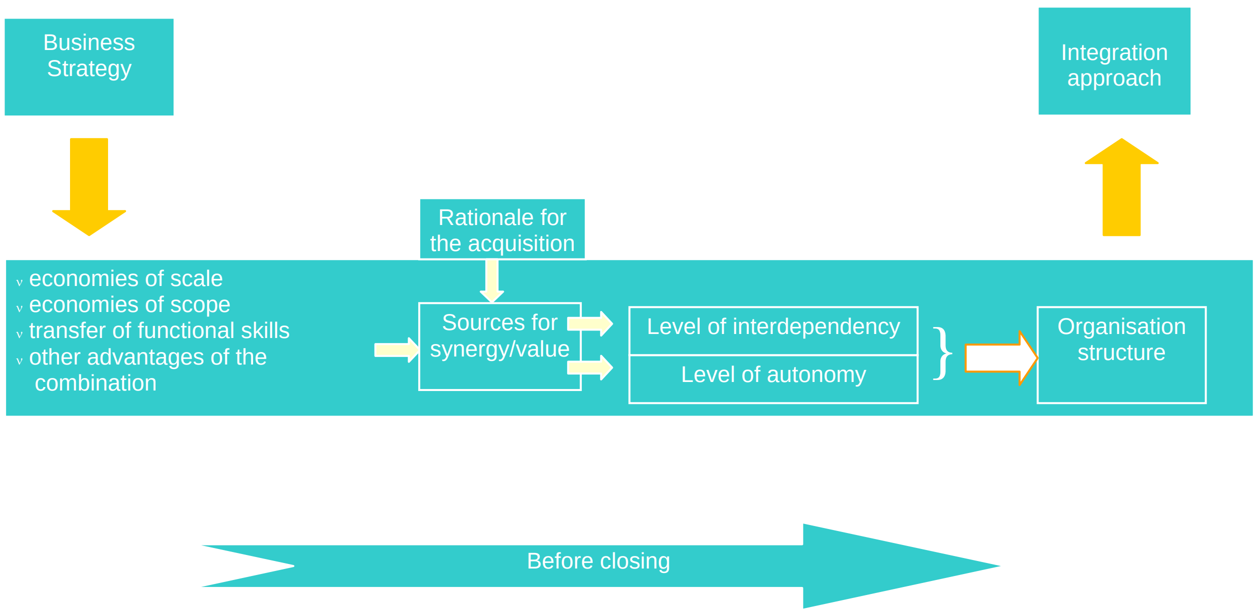
The most important thing for management to keep in mind is that mergers and acquisitions are part of a well defined strategy that should lead to synergies and value creation. Envisioning is critical in the post-merger process. To be able to successfully handle the post-merger integration process, the phases of business transformation and the drivers for change need to be identified and clearly described. Envisioning and establishing the business case are essential to be able to depart for the desired future state. Various business aspects requiring transformation need to be clearly described in order to define the rationale for the merger and acquisition and to be able to define the business case. The business case itself provides direction, procedures and processes regarding key issues such as important milestones to be achieved during the process, benchmarks, and return of investment measures.

6.2 THE POST MERGER MANAGEMENT PLAN

A post merger management plan is specifically designed to provide a framework for handling the process and identifies the strategic rationale for the merger and acquisition, the integration strategy, and the organisation of the integration project. This implies that the goals and objectives of the merger and acquisition are well described and agreed upon, that the sources of synergy and value creation are identified and the level of autonomy of each firm has been decided upon and the degree of interdependency is understood. The Post-Merger Management Plan also serves to manage expectations.

Figure 10 depicts the linkage between the transaction and the post-merger management process. The post-merger management plan is strongly linked to the transaction process. Based on the business strategy, be it one of economies of scale, economies of scope, transfer of functional skills or the predetermined advantage of combining the business and the rationale for the acquisition so as to determine the sources for synergy or the value to be created by the merger (Sorry, I don't understand this sentence – it hasn't got a main clause). Interdependency analysis between value chains can be a basis for synergies and value creation. As to the how the organisation is structured is a function of the level of autonomy, interdependency and control. The level of interdependency and the way autonomy is defined has an impact on the integration approach. Business firms typically have a choice of three basic integration strategies (Haspeslagh and Jemison, 1990): preservation, symbiosis or absorption. These factors should be determined before closing the deal.

Figure 10: Linkage between transaction and post-merger management process



Source: authors own

The post-merger management plan sets priorities, recommends the specific actions to be undertaken, and describes what analysis is to be done on important issues concerning both companies, such as value chain analysis, analysis of processes, procedures etc. The plan further describes how the project teams will be organised and its members appointed, what targets are set, the planning process, the decision-making process and how the project should be evaluated.

6.3 CRITICAL SUCCESS FACTORS FOR POST-MERGER MANAGEMENT

- Define the right approach for integration (preservation, symbiosis, absorption)
- Important strategic choices need to be made before signing (levels of autonomy / interdependency / control)
- Create in both companies the right climate for integration.
- Create and establish the right project management team to manage the integration process.
- Post-Merger Management is strongly linked to the transaction process
- The need for strategic interdependency and the way autonomy is defined have an impact on the integration approach
- Interdependency analysis between value chains is the basis for synergies and value creation

6.4 TWELVE MAXIMS FOR SUCCESFUL IMPLEMENTATION

Outlined below are twelve maxims for the successful implementation of the integration strategy:

1. **Board level structure and senior level management involvement must be defined at announcement.** In both cases, at the time of making the press release of the acquisition, the board of directors and senior management of the acquired firm were made known. In both Hi-Fi Corporation and Incredible Connection the existing executive management team remained the same as prior to acquisition. The exception being that in both cases David Sussman (Executive chairman – JD Group) and Mias Strauss (Chief executive officer – JD Group) were appointed to the positions of non-executive chairman and non-executive director respectively. Throughout the process senior management and leadership were involved and formed part of the project management team constituted to facilitate the integration process.

Where leadership is lacking to make things happen the right way and to contribute to creating value instead of destroying it. “Leadership’s urgency is often neglected. Some 39% of all companies faces a leadership vacuum because they failed to make the established leadership a priority” (Habeck *et al*, 2000).

2. **Publish and communicate an integration plan.** The integration process as foreseen by management was published at the announcement of the deal. This entailed the various stages of activity that would aim to complete the integration planning; in the case of Hi-Fi Corporation the initial bench mark was that the integration process would be completed within the financial year of the announcement being made.

   Poor Communication, both internally and externally, leads to misunderstanding the business case and resistance to change of many stakeholders, specifically the employees of the companies concerned. The premium that is paid for the take-over and the cost of the integration process are often not consonant with the synergetic effects that need to be achieved in order to increase shareholder value. Given all the other stresses of M&A deal development, communication often becomes an afterthought. Yet failure to communicate well plants seeds of later failure, measured in terms of lost credibility, diminished employee morale, destroyed value, and possible investor lawsuits. Effective communication promotes good corporate governance, good stakeholder relations, and good post - merger integration. According to studies of post-merger integration programs by the Conference Board KPMG 1999a, it was found that companies which gave priority to communication were 13% more likely than average to have a successful deal. On drilling down to understand this better, it was found that poor communication with one’s own employees appeared to pose the greatest risk to deal success, more than poor communication to shareholders, suppliers, or customers.

3. **Establish clear business strategies and financial targets.** In order to extract value from the acquisition, clear business strategies and financial targets are set for the business unit. Communicating a clear business strategy ensures that the business unit operates within the market segment so as not to cannibalise other

business units, thus ensuring focus. Determine the basis for value creation / synergies.

By analysing global M&A activity and identifying the greatest risks involved in the process, it was found that the post-merger integration phase bears the greatest failure risk (AT Kearney Global PMM Survey, 1998). Major organisational change causes a company to become more introspective. This is especially true during merger integration. Once a deal is announced, the focus of both organisations turns inwards. Because of internal orientation, companies often get distracted from the actual running of the business (Pritchett *at al,* 1997).

4. **Keeping integration time as short as possible.** The aim is to achieve a seamless as possible, swift integration. Speed is of essence to ensure the least amount of disruption is caused to the business.

   The pace of implementing the post-acquisition changes is conflicting in the literature with some researchers arguing that immediately after the close of the deal, there is a period when employees at the acquired company expect and even welcome change (Shrivastava, 1986) while other researchers argue that firms should 'go slow' and prepare employees for change and reorganisation (Yunker, 1983). One of the main reasons why business integration fails, is due to the fact that management wants to completely integrate the acquired firm or merged firm too quickly, which generates major resistance to change, confusion, turbulence and considerable uncertainty among stakeholders, which will result in slowing down or blocking the integration process. Underestimating cultural difference is another important factor preventing successful business integration. Pritchett *et al* (1997) argue however, that although corporate culture may be a rather amorphous concept, its influence is pervasive. Organisations that appear to be highly compatible and that seemingly should be able to achieve merger synergies can have underlying cultures that seriously threaten coexistence. Companies can experience a very difficult post acquisition adjustment process simply as a result of having different operating styles.

5. **Make decisions swiftly – speed is critical.** The corollary to the preceding point is that lengthy decision processes trend to worsen uncertainty. Also delays encourage jockeying for advantage by individual managers and lengthen the window during which competitors cherry-pick talented employees to their advantage.

6. **Involve as many employees as possible / Get buy-in.** Engaging employees with the integration process builds commitment to the new organisation faster than merely giving orders. Even at relatively junior levels, involvement could entail identifying integration issues and resolving them.

   "Managers often go into crisis mode and design integration processes that are piecemeal or place too much reliance on project management disciplines. People-based mergers need people-based integration processes that are collaborative in their design and implementation. The employee involved in the integration process can become the 'positively charged' nucleus of the merged business" (Devine, 2002)

7. **Make selection process transparent.** Retention issues are at the core of the employees' "me issue." The approach ought to be seen as fair, consistent, transparent, and meritocratic, and decisions made on accurate and comprehensive data.

8. **Do not prolong the life of integration project teams.** The risk of forming integration teams is that they might become a new layer of bureaucracy, impeding the work of the regular business unit. At the start of the integration effort, "sunset" expectation and deadlines should be established for the integration team.

9. **Move to a common systems platform.** Information technology defines reality for most organisations. This point stands as a recommendation to JD Group that tougher decisions need to be made about standardisation of IT platforms. Currently the group operates across four different platforms.

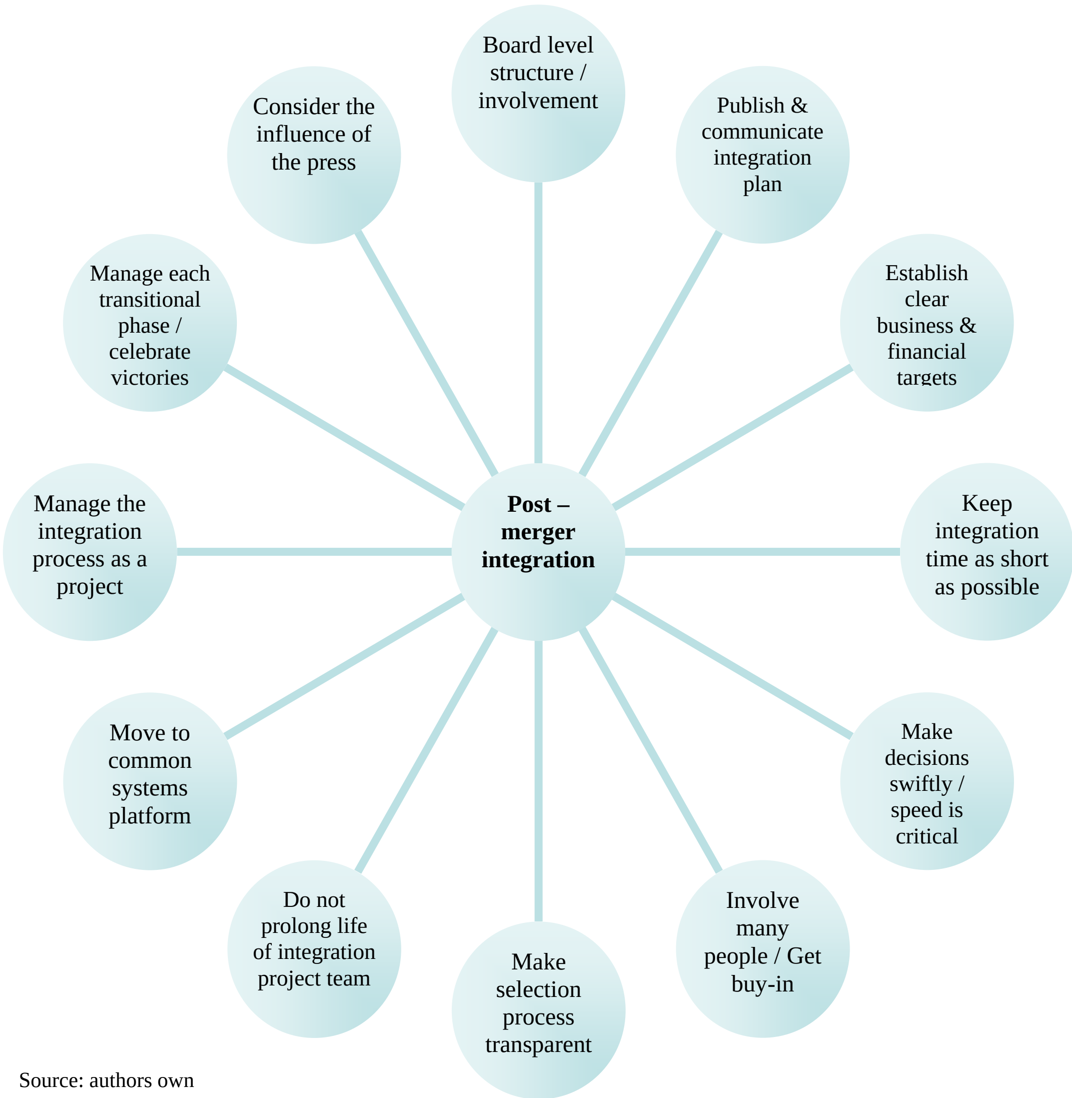
10. **Manage the integration process as a project.** Undoubtedly the single most important caveat. Viewing the integration efforts as a project meant that it would have finite goals, milestones, and a life apart from the ordinary course of business. Integration management needs to be separate and distinct – viewed as a special project whose responsibilities and authority spanned functions and hierarchies.

    Good integration management can salvage a poorly crafted deal, and it can turn a well-conceived merger into a blazing success (Pritchett *et al,* 1997). Putting in place a well-equipped project organisation, capable of managing the integration process is critical for success. Project management should be well structured and equipped with the right tools, skills, and authority to deal with all aspects of business integration. An experienced change manager, who is accepted and supported by the firms, should be appointed as integration manager.

11. **Manage each transitional phase; celebrate victories.** Success helps to create momentum for the integration process, building confidence in the capacity of the entire organisation to successfully achieve goals.

12. **Consider the influence of the press / analysts.** Press relations need to be managed throughout the integration process, for the simple reason that the press influences the perceptions of employees, customers, investors, and competitors.

Figure 11: Twelve maxims for successful integration strategy implementation



Source: authors own

In summary, successful corporations do four things differently from other companies once a merger is announced:

- They act immediately to preserve revenues
- They look for growth opportunities, rather than worrying more about costs
- They see that the merger as a positive experience for staff
- They put effective post-merger management in place

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 SYNTHESIS OF RESEARCH DATA

Why emphasise the many failures and fail factors of M&A? Because it is of critical importance for management to understand the risks involved in the process and the many factors influencing the success of the deal. Management should therefore concentrate their efforts on understanding and avoiding the risks involved by establishing sound risk management. However, at the same time they should concentrate on the positive aspects and critical factors for achieving the synergetic effects of the integrated business. Successful mergers and acquisitions enhance understanding of different cultures and co-operation modes, while at the same time creating competitive advantage, improving the market position of the combined firms, establishing new market presence, sharing of knowledge and managerial skills, and achieving major cost savings resulting in increased shareholder value and economic growth. “The ultimate outcome of most corporate mergers will continue to depend on the success of the merger integration efforts” (Habeck *et al,* 2000).

The most important thing for management to keep in mind is that the merger or acquisition is part of a well-defined strategy that should lead to synergies and value creation. Envisioning is critical in the post-merger process. To be able to successfully handle the post-merger integration process, the phases of business transformation and the drivers for change need to be identified and clearly described. Envisioning and establishing the business case are essential to be able to depart for the desired future state. The business can itself provide direction, procedures and processes, benchmarks, and return on investment, while ongoing toward the future state.

Selecting an integration strategy that is in line and complies with the goals set by top management is equally important to assure strategic fit. As no merger or acquisition is the same and conditions for success vary to a large extent, selecting the right integration strategy will avoid failure of the combined business in their pursuit of achieving any degree of synergy and value creation.

The merger and acquisition process as depicted in figure 12 outlines the overall strategic and implementation process:

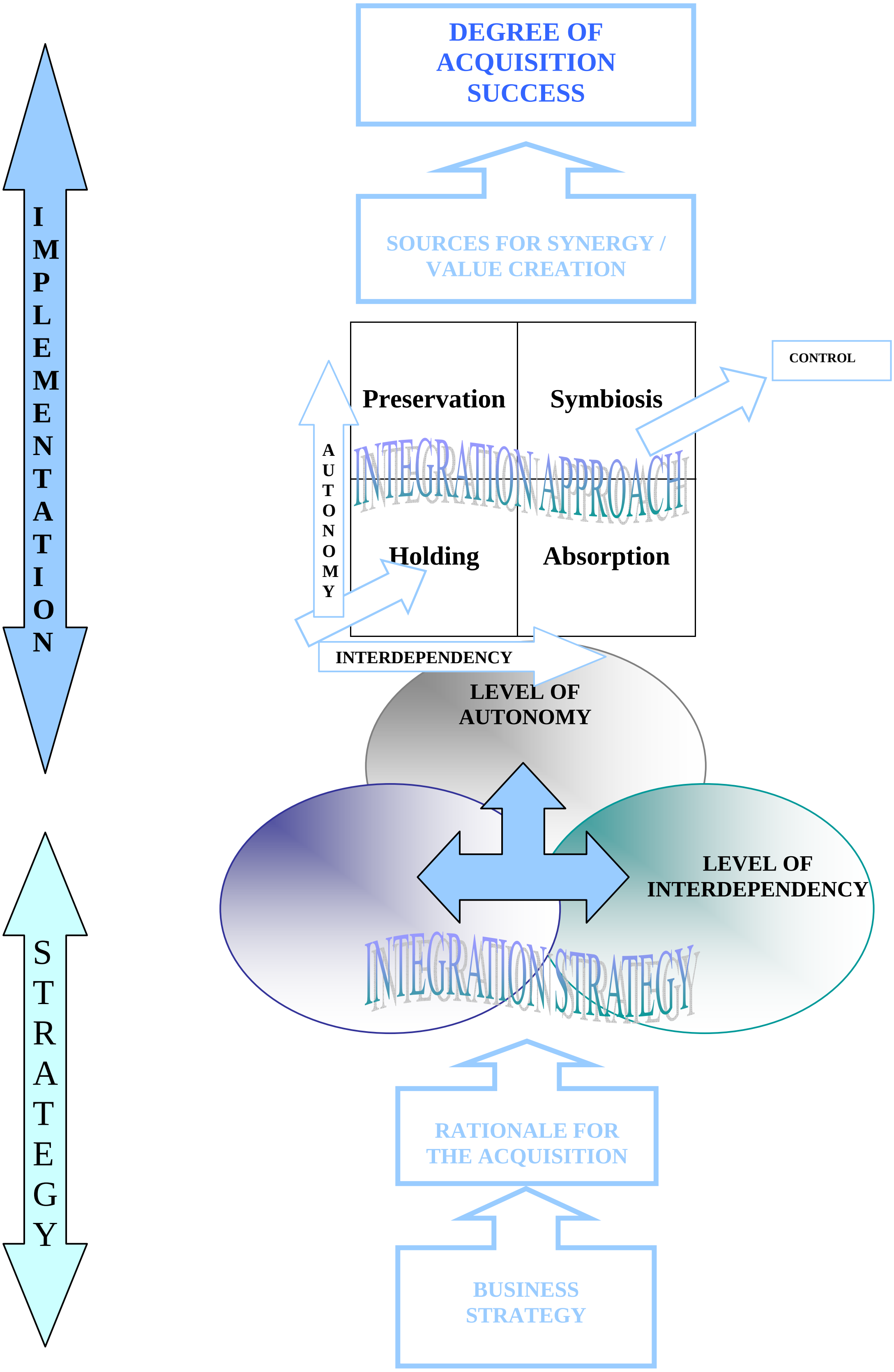
- **Strategy.** The business rationale for the merger and acquisition arises from the business strategy and in turn should be the foundation for the integration strategy. The literature review outlines three dimensions along which integration strategy could be modelled: autonomy, interdependence, and control. The levels of which will in turn determine the integration approach.

- **Implementation** succeeds through a process of planning and execution. Speed, determination, and communication are vital attributes of successful implementation phases since employees, suppliers, and investors tend to focus on the personal implication of the deal, and this internal focus can have a deadening influence on the integration efforts. “Me issues” cannot be ignored but should be dealt with quickly. The integration approach can be understood by considering two central dimensions of the acquisition (Haspeslagh & Jemison 1991). The first dimension is the relationship to the acquiring firm, which relates to the nature of interdependence that needs to be established between the companies in order to realise the type of strategic capability transfer that is expected. This referred to as a level of interdependency. The second dimension is the way in which value is expected to be created. This is associated with the need to preserve intact the strategic capabilities after the acquisition. This is referred to as a level of autonomy. A third dimension (Bruner 2004) is a measure of control that is exercised between the acquired and the acquiring companies. In light of the relationship between dimensions one and two Haspeslagh and Jemison identified three types of acquisition integration approaches namely: preservation, symbiosis and absorption.

- **Integration is transformation.** Planning for post-merger integration must begin with the recognition that the changes needed are not marginal, small or casual. Instead, they demand the same skills that one observes in major corporate makeovers. Transformation is driven by strategic turbulence. To really understand the drivers and challenges of post-merger integration, start by understanding the strategic turbulence that motivated the acquisition effort in the first place. Merger activity is not motivated by opportunism, but by a need to respond to strategic problems or opportunities. With the acquisition of Hi-Fi Corporation the JD Group provided the business with a life-line; the acquirer provided a strong balance sheet and implemented a structure in the form of policies and practices of good corporate governance. Whereas in the case of Incredible Connection the acquisition provided the acquirer with an opportunity for growing top-line earnings, since the Competitions Board had ruled against any further acquisitions in the furniture and white appliance retail sector.

- **Sources for synergy / value creation.** The degree of acquisition success is undoubtedly determined by shareholder value creation, which in a simplistic manner should be reflected in the appreciation of the share price. This can be gauged by how the market has priced the share of the company pre- and post-acquisition. Another measure is the attributable free cash flow generated by the acquired company. The computation of the return on investment will indicate how the investment has performed compared to say a risk-free depository rate. Calculation of the return on investment, equals the cost of the investment, which is the price paid plus any associated costs of restructuring, divided by net income after tax, but before extraordinary items. From a group perspective the business unit income contribution is demonstrable of the value created.

Figure 12: M&A Integration Process



Source: authors own

7.2 CONCLUSION AND RECOMMENDATIONS

In order to avoid the many mistakes companies make in their relentless pursuit for growth and value creation for their shareholders by way of merger and acquisitions, it is essential that top management carefully plan and formulate strategies that clearly provide a rationale for their actions. These strategies should be based on clear vision, be in line with the company's mission, its goals and objectives, its resources and capabilities, and should add value for their shareholders. To protect the shareholders from ill-based and risky ventures, it is essential that adequate corporate governance and codes of conduct are in place to exercise proper control on the activities of top management and to ensure that business ethics are respected and observed. Companies should plan well ahead on how to organise the integration process and have an action plan in place before the deal is done. Selecting the right integration strategy and deciding on the level of autonomy, control and interdependency of each of the merged or acquired firms, is critical in the process.

The right approach to realising synergy should be taken before embarking on assimilating the businesses; these can be based on financial synergy (portfolio approach), value chain synergy (linkage approach) or synergy through shared competences (core-competence approach). Whichever is most appropriate and relevant to the business of the firms concerned a solid action plan should be developed, agreed upon, and put in place in consonance with the strategies for value creation as formulated by the executive board, and executed by a project management organisation that is composed of representatives of both firms. Adequate post-merger management is critical to see the integration process to its successful conclusion.

All actions should be aimed at arriving at the desired future state in an agreed time frame, and be based on shared activities, sharing knowledge and skills, sharing image and values of the firms concerned, while adopting a long-term perspective to ensure the enhancement of shareholder value and sustainable economic growth. Short-term perspectives, essentially aimed at quick wins and the greed of inadequate top management should be avoided at all times.

In view of the high failure rate of mergers and acquisitions, it is essential to critically evaluate best practices pertaining to present business integration processes and to define what integration practices would be appropriate for different types of business integration approaches to secure future success. Conditions under which mergers and acquisitions are most likely to succeed in terms of value creation need to be further investigated, specifically with respect to integration strategies and different types of integration approaches. The transfer and sharing of resources and capabilities and operational best practices across the combinations are critical in the process and may lead to the creation of new capabilities that will add extra value to the combined businesses.

Transferring, blending and sharing values, knowledge, skills and image (institutional identity) of the combinations will reduce and even prevent turbulence, resistance, and internal conflicts both at managerial and operational level. As the same time the new company must secure maintenance of productivity and good relationship with its stakeholders, in particular with customers and suppliers, aiming not only at preserving, but for adding value for their shareholders.

Finally, successful post-merger integration requires sustained leadership from the top, middle, and bottom. This serves as a useful reminder to planners and managers of post-merger integration: patience and perseverance matter immensely in the successful conclusion of these efforts. As William Blake once said, “Execution is the chariot of genius.” No matter how good the deal design, implementing the merger integration is where the hypothesised deal benefits are won or lost. Choosing the right integration strategy is a matter of judgement; implementing it well is a matter of managerial skill.

References

A.T. Kearney (1999) *Corporate Marriage: Blight or Bliss? A Monograph on Post-Merger Integration*, A.T. Kearney (April 1999)

Batellan, M., and van Essen, F. (2000) *Ten Ways to Make a Mess of Mergers.* Netherlands: Scriptum Management

Bekier, Matthias M., Anna J. Bogardus, and Tim Oldham(2001) *Why Mergers Fail*, McKinsey Quarterly 4 (2001), http://www.mckinseyquartely.com (accessed 30/05/06)

Berg, B. (2001) *Qualitative Research Methods for the Social Sciences.* 4th ed. Boston: Allyn and Bacon.

Bourantas, D. and Nicandrou, I.I. (1998). Modelling Post-Acquisition Employees Behavior: Typology and determing factors. *Employee Relations,* 20(1), 73-91.

Bower, J. (2001) Not All M&As are Alike – and That Matters: *Harvard Business Review,* March 2001, 93-101.

Bruner, R.F. (2004) *Applied Mergers and Acquisitions,* John Wiley and Sons Inc.

Cannella, A. A., & Hambrick, D. C. (1993) Effects of Executive Departures on the Performance of Acquired Firms. *Strategic Management Journal*, 14: 137-152.

Capron, L. (1999) The long run performance of horizontal acquisitions. *Strategic Management Journal*, 20: 987-1018.

Capron, L., Dussuage, P., & Mitchell, W. (1998) Resource redeployment following horizontal mergers and acquisitions in Europe and North America, 1988-1992. *Strategic Management Journal*, 19: 631-661.

Capron, L., & Mitchell, W. (1999) Bilateral resource redeployment and capabilities following horizontal acquisitions. *Industrial and Corporate Change*, 7(3): 453-484.

Capron, L., Mitchell, W., & Swaminathan, A. 2001. Asset divestiture following horizontal acquisitions: A dynamic view. *Strategic Management Journal*, 21(10-11): 1061-1081

Chakrabarti, A. K. (1990) Organizational factors in post acquisition performance. *IEEE Transactions on Engineering Management*, 37: 259-268.

Collis D.J. and Montgomery C.A. (2005) *Corporate Strategy A Resource-Based Approach.* 2nd ed. New York: McGraw-Hill Irwin

Cumming, T.G. and Worley C.G. (2005) *Organization development and Change.* 8th ed. United States of America: Thomson South-Western.

De Roos, J.F. (1992) *Mergers and Acquisitions in a United Europe: towards an EC Wide Code of Conduct through Accelerated Integration.* New York: McGraw-Hill Irwin.

De Wit, B. and Meyer R. (2002) *Straegy: Process, Content, Context.* London, UK: Thomson Learning

Deutsch, C.H. (1999) *"The Deal is Done: The Work Begins, Practising the Steps Even before the Dance"* New York Times, April 11,1999, Section 3 page 1., New York Times Co.

Devine, M. (2002) *Successful Mergers.* London, UK: Profile Books Ltd.

Dutz, M. A. (1989) Horizontal mergers in declining industries: Theory and evidence. *International Journal of Industrial Organization*, 7: 11-33.

Fried, Y., Tiegs, R. B., Naughton, T. J., & Ashford, B. E. (1996) Managers' reactions to a corporate acquisition: test of an integrative model. *Journal of Organization Behavior*, 17: 401-427.

Greenwood, R., Hinings, C. R., & Brown, J. (1994) Merging professional service firms. *Organization Science*, 5(2): 239-257.

Hamel, J., Dufour, S. and Fortin, D. (1993) *Case Study Methods.* Newbury Park, California: Sage Publications.

Holliday,A. (2002) *Doing and Writing Qualitative Research*. London: Sage Publications.

Karim, S., & Mitchell, W. (2000) Reconfiguring business resources following acquisitions in the US medical sector. *Strategic Management Journal*, 21 (Special issue on the evolution of business capabilities): 1061-1081.

Habeck, Max M, Kröger F. and Träm, Michael R. (2000) *After the Merger.* London: Pearson Education.

Haspeslagh, Philippe C, and Jemison, David B. (1991) *Managing Acquisitions: Creating Value through Corporate Renewal.* London: The Free Press.

Lajoux, A.R. (1998) *The Art of M&A Integration.* New York: McGraw-Hill Irwin.

Leedy, P.D. and Ormrod, J.E. (2001) *Practical Research: Planning and Design.* 7th ed. Upper-Saddle River: Prentice-Hall Inc.

Mason, J. (2002) *Qualitative Research* 2nd ed. London: Sage Publishing

Miles,M.B. and Huberman, A.M. (1994) *An Expanded Source Book: Qualitative Data Analysis.* 2nd ed. California: Sage Publications.

Pablo, A. L. (1994) Determinants of Acquisition Integration Level – a Decision-Making Perspective. *Academy of Management Journal*, 37(4): 803-836.

Perry, C. (2001) Case Research in Marketing. *The Marketing Review,* 2001(1):303-323.

Pritchett,P., Robinson, D. and Clarkson, R. (1997) *After the Merger.* New York: McGraw-Hill Irwin.

Saunders, M. Lewis, P. and Thornhill, A. (2003) *Research Methods for Business Students.* 3rd ed. Edinburgh Gate: Pearson Education Limited.

Scherer, F., & Ross, (D. 1990) *Industrial Market Structure and Economic Performance.* 3rd ed. Boston: Houghton Mifflin.

Schweiger, D.M., Ivancevich, J.M. and Power, F.R. (1987) Executive Actions for Managing Human Resources before and after acquisition. *Academy of Mangement Executives,* 1(2): 127-138

Schweiger, D. M., & DeNisi, A. S. (1991) Communication with employees following a merger: a longitudinal field experiment. *Academy of Management Journal*, 34(1): 100-135.

Shanley, M. T., & Correa, M. E. (1992) Agreement Between Top Management Teams and Expectations for Post Acquisition Performance. *Strategic Management Journal,*13: 245-266.

Welman, J.C. & Kruger, S.J. (2001) *Research Methodologyfor the Business and Administration Sciences.* 2nd ed. Cape Town: Oxford University Press Southern Africa.

Yin, R.K. (2003) *Case Study Research: Design and Method.* 3rd ed. California: Sage Publications.

Yunker, J. A. (1983). *Integrating Acquisitions*: Praeger.

APPENDICES

APPENDIX A: INTERVIEW QUESTION – BASED AROUND RESEARCH QUESTIONS

INTERVIEW GUIDE

General / establish relevance

- Did you work in the organisation at the time of the acquisition? What was your role before the acquisition? How long have you worked in the company? What is you role now? How has your worked changed?
- What were you tasks and responsibilities associated with the post- acquisition process?

The Post-Acquisition Process

- Describe your role in the post-acquisition process?
- What expectation did you have on the acquisition when you first got to know about it? Where these expectations fulfilled?
- How long did the implementation process take (from decision to completion)?
- What was you reaction when the acquisition announcement was first made?
- Which factors do you think have been most important in the post-acquisition process?
- With what levels of autonomy did you operate?
- What degree of interdependence exists between yourselves and the parent company?
- What degree of control is exercised over the business?
- Are there still things that need to be worked out? Why?
- In which way has the acquisition been favoured the company?
- Did policies and procedures change since the acquisition? Did you adopt JD Group policies and procedures?
- How where the changes planned and implemented? With JD Group / Incredible Connection Group / Profurn?
- Do you thing that the acquisition process could have been carried out differently? Why?
- What role did top management from Incredible Connection Group / Profurn have in the post-acquisition process?

- Did you experience any culture clashes?
- What do you think has been the most common reaction among employees?
  Loyalty / Compliance / Voice / Neglect

Open-ended discussion

- What do you believe could have been done differently?
- What do you believe was done particularly well?

APPENDIX B: INTERVIEWEES

Mr Mias Strauss

Age 54

Chief Executive Officer of JD Group Limited

Appointed 1st December 1993

Responsible for Group operations

35 years' experience in furniture retail

Joined Russells in 1971 and appointed as chief executive of that chain in 1989

Dr Henk Greeff

Age 47

MEd (Ed Management) (cum laude) PhD

Group Executive of Group Strategy

8 years' experience in strategic management consulting and 2 years' experience in furniture retail

Mr Matthew van der Walt

Age 34

Chief Executive Officer of Hi-Fi Corporation

Prior to that Trading and Operations Director of Hi-Fi Corporation under the ownership of Profurn

10 years' experience in furniture retail

Mr Grattan Kirk

Age 42

Chief Executive Officer of the Connection Group

Joined the Incredible Connection Group as Financial Director in November 1997

Prior to that he was partner at Deliottes, Johannesburg

Mr Rénier Krige

Age 39

BCom (Unisa) SMP (Stell) PLD (Unisa) (cum laude)

Group Human Resource Executive

16 years' experience in human resources

Mr Ian Child

Age 48

BCom (Hons) BAcc CA(SA)

Chief Information Officer JD Group Limited

20 years' experience in furniture retail / IT / finance

Ms Annelize Lourens

Group Project Administrator at the time of the Acquisition & Merger

Mr Gerald Völkel

Age 46

BAcc CA (SA)

Chief Financial Officer of JD Group Limited

Appointed 2nd April 2001

Joined the Group in November 1995

15 years' experience in auditing and 10 years' experience in retail

APPENDIX C: JD GROUP LETTER OF AUTHORITY

JDG Trading (Pty) Limited

(Reg. No. 1958/003362/07)
JD House 27 Stiemens Street
Braamfontein 2001
P O Box 4208
Johannesburg 2000
Tel: +27 (0) 11 408 0683
Fax: +27 (0) 11 408 0794
e-mail: henkg@jdg.co.za

11 August 2006

Mr Zac de Sousa
PO Box 31
Featherbrooke Estate
1746

Dear Zac

RE: Research Project Within The JD Group

Your application for a research project with the JD Group refers.

It is with greatest pleasure to inform you that your application has been approved on the following conditions:

- Open information will be made accessible to you but no private or company specific information will be available to you.
- Your final research report must be tabled forward for final approval.

We will arrange access to key role players in the organisation through Khuselwa Pupuma, my PA. The following people are viewed as important sources:

- CEO of JD Group, Mr Mias Strauss
- Group Executive of Group Strategy, Dr Henk Greeff
- CE of Hi-Fi Corporation, Mr Matthew van der Walt
- Members of Hi-Fi Corporation Executive Team
- CE of the Connection Group, Mr Grattan Kirk
- Members of the Connection Group Executive Team
- COO of JD Group, Mr Johan Kok
- Group Executive of Group HR, Mr Rénier Krige
- Group Project Administrator at the time of the Acquisition & Merger, Ms Annelize Lourens
- CIO of JD Group, Mr Ian Child
- CFO of JD Group, Mr Gerald Völkel.

We have noticed that in your request the above mentioned interviews should be completed by the 20th October 2006.
We will endeavor to finish the interviews by the 6th October 2006.

Should you need further information, please feel free to contact me.

HENK GREEFF (DR)
GROUP EXECUTIVE (STRATEGY)