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A comparison on the execution of variables that determine successful mergers and acquisition activity in Emerging Markets: Differences between Emerging Market Multinational and Developed Market Multinational Corporations

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ABSTRACT

The internationalization process of firms has essentially been in two contexts, one focusing on those from the developed, and the other on those from the developing economies (Buckley *et al.*2008). According to (Panond, 2007), internationalization of Emerging Market Multinational Corporations (EMMNCs) has appeared in two waves, the first wave, which emerged in the late 1970s and early 1980s viewed the competitive advantages of EMMNCs as being derived from their ability in reducing costs through scale economies, often substituting machinery with human labour and replacing imported inputs with cheaper local ones, or improving performance through knowledge of operating in less developed markets.

The objective of this research has been to understand the variables that drive the success of Mergers and Acquisitions as a mode of entry in Emerging Markets. The research looks at the application of these variables my multinational corporations from both emerging markets and those from developed markets; the aim is to ascertain if these variables are applied differently depending on the type of economy a multinational originates from.

Given the saturation of developed markets multinationals have embarked on growth strategies into emerging markets where these markets are perceived as untapped, however most have failed to realise shareholder value as a result of the dynamics and challenges that these economies bring.

Fukao et al. 2005 suggests that market share is one of the most useful means used in assessing the structure of the market and a particularly desirable characteristic of a target firm. This is usually couched in terms of having a “good market position” in the relevant market. The specific target criterion is of special consideration in sectors which may show a high degree of stability of market structure (as compared to those which are characterized by technology intensity, low entry barriers and powerful competition, showing high volatility of market shares). As a result, it is expected that the market share variable will bear a positive coefficient in explaining the likelihood of foreign acquisition.

The research proved successful that the application of the variables that determine success of an acquisition and merger between multinationals was similar and what drove this success was mainly based on experience in doing mergers and acquisitions. These led to further insights for current and future work on the topic.

DECLARATION

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

Samora Sivuyile Stofile

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Table of Contents

Chapter 1: Definition of Problem and Purpose

1.1 Introduction

This study focuses on the execution of the variables that determine internationalisation success between emerging market multinational corporations (EMMNC) and developed market multinational corporations (DMMNC) in emerging markets post mergers and acquisitions (M&A). Are there differences between EMNC's and DMNC's, when M&A is used as a mode of entry into emerging markets?

In this study a broad qualitative review of M&A activity in selected emerging markets has been done, followed by a dual case-based investigation to identify the factors that may be responsible for the differences and similarities with (M&A) and similarities with M&A success.

Emerging markets have become significant economic entities in the new world economy for large and diversified business groups (BGs). Khanna and Yafeh (2007).

The internationalization process of firms has essentially been in two contexts, one focusing on those from the developed, and the other on those from the developing economies (Buckley *et al.*2008). According to (Panond, 2007), internationalization of Emerging Market Multinational Corporations (EMMNCs) has appeared in two waves, the first wave, which emerged in the late 1970s and early 1980s viewed the competitive advantages of EMMNCs as being derived from their ability in reducing costs through scale economies, often substituting machinery with human labour and replacing imported inputs with cheaper local ones, or improving performance through knowledge of operating in less developed markets.

The second wave, which emerged in the 1990s, viewed the competitive advantages of EMMNCs as being derived from the incremental learning processes that involve value chain activities, starting with lower end tasks and incrementally moving up to the upper end activities on the value chain.

Li (2007) suggests that the internationalization process of EMMNCs focuses on asset-seeking motives rather than the asset-exploiting arguments on which developed country internationalization process models, such as the Ownership, Location and Internalisation (OLI) paradigm are based.

He contends that, in contrast to Developed Market Multinational Corporations (DMMNCs), EMMNCs will not consider ownership advantage as a precondition for internationalization; they will seek this as a strategic motive only after they begin to internationalize. This view also argues that, unlike the assumptions on which the OLI is based, EMMNCs will not only seek partial internalization modes such as joint ventures or alliances as they internationalize; their unique ownership advantages will derive from their social and relational capital which will overcome any ownership advantages viewed from developed country lenses.

Luo and Tung (2007) underscore this view with their argument that EMMNCs have been using international expansion as a springboard to acquire strategic resources and reduce institutional and market constraints in their home markets. In their view, EMMNCs overcome some of their late comer disadvantages by a series of aggressive, risk-taking measures, such as acquiring critical assets from maturing multinational corporations (MNCs) to compensate for their competitive weaknesses, and use international expansion as a springboard to counter-attack global rivals in their home markets. They also argue that EMMNCs use outward investment as a steppingstone to bypass rigid trade barriers, alleviate international constraints, and secure preferential treatment offered by Emerging Market (EM) governments.

Thus, in their view, international expansion of EMMNCs is either asset seeking or opportunity seeking and is undertaken in order to bolster economic and social development in the home market and/or to compensate for firm-level competitive disadvantages in foreign markets. Luo and Tung (2007)

These studies contend that successful EMMNCs will begin establishing market presence abroad through asset exploitation initially, but will soon follow with asset seeking behaviour.

Buckley (2008) offers arguments about why EMMNCs expand internationally that parallel the arguments presented above. They hold that EMMNCs hold unique ownership advantages that they accumulate from their experience in, and knowledge about, operating in difficult, often turbulent home country economic and political conditions and based on this home country embeddedness, they argue that EMMNCs will be able to develop capabilities that developed country MNCs (DMMNCs) can not possess nor acquire cost-effectively.

Kogut, (1983), further argues that the valuation effects of strategic actions leading to the creation of a multinational network stem from the firm's ability to arbitrage across institutional environments, the informational externalities captured by the firm, and the cost savings gained by economies of scale in production, marketing and finance. Cross-border acquisitions may also increase the operational flexibility of the firm by giving it the opportunity to exploit market conditions, a similar argument can be made for average output prices in international markets when demand shocks are not perfectly correlated. As long as the costs of creating and maintaining a diversified corporate network are not excessive, presence in multiple markets can yield additional value to the firm because of its ability to exploit more diverse conditions.

So international expansion through mergers and acquisitions offers significant value-creation opportunities for firms; but it also presents significant challenges that jeopardize the potential hypothesized gains. For example, an often-cited complexity in cross-border mergers and acquisitions is the difficulties associated with post-acquisition integration of the acquired company. In this context various researchers highlight risks such as "liability of foreignness" and "double-layered acculturation" (Barkema, Bell, & Pennings, 1996; Eden & Miller, 2004). Such risks pertain to the differences in natural culture, customer preferences, business practices, and institutional forces; and they are exacerbated impediments to the complete realization of strategic objectives.

Lack of experience in the acquiring firm of executing mergers and acquisitions, organizational inertia in absorbing the target, and prior absence in the country of the target company may inhibit the benefits of mergers and acquisition for firm value. Additionally, complications in target assessment, misidentification of asset complementarities, informational asymmetries, and high premiums paid for the targets may also have adverse effects on the value of acquiring firms. Hitt, Hoskisson, & Ireland, (2001a); Hitt, Ireland, Camp, & Sexton, (2001b).

Although it is reasonable to expect value creation from EMMs' foreign mergers and acquisitions, there are opposing arguments about the impact of such expansions. For example, evidence from the recent literature on industrial diversification provides insights into the potential value-destructive effects of cross-border horizontal expansions. Denis and Yost (2001) propose that global diversification can lead to the inefficient cross-subsidization of less profitable business units. Similarly, another group of scholars, adopting the agency cost framework, suggest that managers' self-serving goals and incentives in value-reducing diversification strategies may not be entirely consistent with shareholder wealth creation (Denis et al. 2001).

1.2 Research Question

Are there differences in the execution of variables that drive successful Mergers and Acquisitions in Emerging Markets when comparing EMMNC's to DMNC's?

1.3 Research Motivation

The rational of this research is pertinent to the realities of globalisation, where companies seem to have an interest into organically growing into Africa and other emerging economies.

The aim is to ascertain the application of variables that determine success or failure when using Mergers and Acquisitions as a mode of entry in Emerging Markets when comparing EMMNC's to DMNC's

Emerging markets present challenges such as; political instability, poor resources, and high levels of poverty, illiteracy, population density and cultural diversity.

1.4 Research Universe

The scope of this research will be defined by the following relevant terms:

Emerging markets are generally defined as "low income, rapid growth countries using economic liberalisation as their primary engine of growth" Hoskisson *et al.* (2000). Emerging market contexts are characterised by institutional turbulence and lower levels of economic development compared to developed nations, Welsh *et al.* (2006). Firms from emerging markets are not known for having the most innovative technology, superior human capital, or world-recognised brands. These firms also experience shortages of financial capital, which attenuates the implementation of marketing strategies in international markets, Wright *et al.* , (2005); Arnold and Quelch, (1998). Nevertheless, emerging markets are also unsaturated compared to developed ones and consumers are eager for better products and services with international quality, Welsh *et al.* (2006). The term Emerging market is also refers to a country that has undertaken transition in its political or economic systems and experienced rapid economic development. Although, there is no exact list of emerging market countries, China, India, Indonesia and South Korea in Asia; Poland and Turkey in Europe; Brazil, Mexico and Argentina in South America and South Africa in Africa. BRICS is another term widely used to describe the four largest emerging markets: Brazil, Russia, India, China and South Africa.

- An Emerging Market Multinational (EMMC) is a company that originates from an emerging market and still has substantial revenue generated from there even though it is engaged in business operations in international markets.

- A Developed Market Multinational (DMNC) is a company originally from a developed economy and still has substantial revenue generated from there even though it is engaged in business operations in international markets.

Key words: Mergers, Competitiveness, Acquisitions, Emerging Markets, Execution

Chapter 2: Literature Review

2.1 Emerging Market Internalisation

An emerging market (domestic market) provides growth opportunities for a multinational enterprise, which may find its existing business in a mature and saturated market. Multinational enterprises first need to make the decision whether to enter a particular emerging market or not, then they need to choose the best entry mode to enter the market, that is, to form a wholly owned enterprise or find a partner to form a joint venture. Zhao and Decker (2006)

A.T. Kearney, (2005); UNCTAD, (2007) argue that for international businesses, emerging economies - and particularly the largest two, China and India are attractive in a number of ways. Firstly, their population levels and high rates of economic growth offer considerable opportunities for the marketing of goods and services. Much of the future sales of consumer durables such as automobiles and mobile phones will occur in emerging markets. Second, for a number of industries including electronics, clothing and footwear, and business services, the large emerging markets (LEMs) offer significant opportunities to lower costs through global sourcing or local production.

With China acknowledged as the "world's workshop" and India as the "global back office" the cost savings can be considerable. Cost savings can be used to competitive advantage and are likely to feature strongly in the strategies of firms facing strong levels of competition. Third, the distinctive characteristics of LEMs - economic and social dynamism, high levels of competition, pervasive market failure and institutional differences - encourage learning. Many of the lessons learned in the more sophisticated emerging markets may be of competitive value in other developing economies as well as developed country markets. For all these reasons we would expect the rise of emerging economies to significantly affect the strategies of international businesses. There is certainly considerable anecdotal evidence to suggest that the majority of international businesses incorporate the LEMs into their strategic decision-making.

von Keller and Zhou, (2003) through a survey of China's 50 largest industrial firms found that internal corporate motives provide the greatest impetus for overseas expansion while the threat of foreign competition is a big push factor. Since, major international competitors all have established production facilities within China Chinese firms have seen their cost advantage eroded significantly in the recent years. Facing problems of intense domestic competition and overcapacity, many more Chinese companies realised that they have to "go global" for future growth and profitability, and must succeed globally in order to win the domestic market. Fan, (2006). Buckley *et a,* (2006) identify three broad categories of investment strategy adopted by the Chinese multinationals, namely market seeking, resources or asset seeking and efficiency seeking strategies.

2.2 Mergers and Acquisitions as mode of entry

Borys & Jemison, 1989, define an acquisition or merger as when two previously sovereign organisations come together under a common umbrella, the result is a hybrid organisation in which value creation depends on the management of the interdependencies through the facilitation of firm interactions and the development of mechanisms promoting stability.

Li (2007) suggests that the recent literature on the internationalization processes of EMMNCs focuses on asset-seeking motives rather than the asset-exploiting arguments on which developed country internationalization process models, such as the OLI paradigm Dunning, 1988) are based. He contends that, in contrast to DCMNCs, EMMNCs will not consider ownership advantage as a precondition for internationalization; they will seek this as a strategic motive only after they begin to internationalize. This view also argues that, unlike the assumptions on which the OLI is based, EMMNCs will not only seek partial internalization modes such as joint ventures or alliances as they internationalize; their unique ownership advantages will derive from their social and relational capital which will overcome any ownership advantages viewed from developed country lenses.

Fan, (2008) further argues that the problem faced by many Chinese multinationals is that, once they are in international markets, they will be cut off from the sources of their existing competitive advantages derived largely from the low cost base at home. Contrary to the assumption that firms internationalise to exploit competitive advantages, for many firms, to internationalise seems to mean seeking competitive disadvantages. In other words, they have to develop or acquire new firm-specific advantages first before embarking on international expansion.

Luo and Tung (2007) underscore this view with their argument that EMMNCs have been using international expansion as a springboard to acquire strategic resources and reduce institutional and market constraints in their home markets. In their view, EMMNCs overcome some of their latecomer disadvantages by a series of aggressive, risk-taking measures, such as acquiring critical assets from maturing MNCs to compensate for their competitive weaknesses, and use international expansion as a springboard to counter-attack global rivals in their home markets. They also argue that EMMNCs use outward investment as a steppingstone to bypass rigid trade barriers, alleviate international constraints, and secure preferential treatment offered by EM governments. Thus, in their view, international expansion of EMMNCs is either asset seeking or opportunity seeking and is undertaken in order to bolster economic and social development in the home market and/or to compensate for firm-level competitive disadvantages in foreign markets.

Klein and Wocke's (2007) description of three South African firms' development of firm-specific advantages that are non-location based. These studies contend that successful EMMNCs will begin establishing market presence abroad through asset exploitation initially, but will soon follow with asset seeking behaviour.

Inspired by the resource based view, Mathews's (2002) work offers that EMMNCs are typically resource-poor and thus will engage in searches to capture resources that can then be internalized and transformed into dynamic capabilities essential for competing in demanding, technology-intensive markets. In his view, internalization of dynamic capabilities, and thus effective international competition, will be a function of:

- Linkages to generate resource acquisition opportunities for the EMMNC;

- Leverages as means through which the EMMNC will be able to exploit the resource linkages established; and

- learning that will result as the outcome of repeated applications of linkage and leverage

Buckley *et al.* (2008) argues that EMMNCs will often prefer to expand into foreign markets by engaging in joint ventures and other forms of alliances as this will help reduce entry costs and increase their opportunities for learning from their partners. As their managerial competencies, confidence, and accumulated experience grows, they will move toward investment modes that afford them greater ownership advantages, such as the ability to protect intellectual property and other proprietary assets abroad.

Hymer 1960; Caves 1971; Lall 1980; delve into the internal nature of oligopolistic action and reaction within the framework of acquisitions and draws on concepts from the international economics of industrial organization. The international Industrial Organisation (IO) tradition stems from the fundamental insight that modern enterprises and MNC's in particular possess certain firm specific advantages (FSAs) such as specific knowledge in production, distribution, marketing etc. These FSAs help to create monopolistic market positions nationally and internationally and in the long-run to make excess profits exploiting market imperfections and entry barriers. International IO theory can be used to explain oligopolistic and structural aspects of cross-border acquisitions within a host economy because it takes into account the competitive interaction of foreign investors with domestic rivals.

Hymer 1960; stated that if international markets were imperfect, it would be a profitable option to control local enterprises in various countries via acquisitions in order to eliminate competition and remove conflict between foreign MNCs and domestic firms.

The special issue of Applied Economics Quarterly, 1, 2004 and J Ind Compet Trade 2008 state that; additional information can result from an analysis of the effects of foreign acquisitions on target firms to be a profitable option to control local enterprises in various countries via acquisitions in order to eliminate competition and remove conflict between foreign MNCs and domestic firms.

In turn, foreign MNCs normally combine the FSAs of the acquired firm which is well-established in the local market with its own core abilities, thereby augmenting its overall FSA system within the framework of the so-called “asset-seeking FDI” and overcoming the problem of “liability of foreignness” and the additional costs of doing business abroad. (Dunning 2000; Zaheer 1995)

Dunning 2000 further states that; specific transaction costs in foreign markets derive from the fact that, as a matter of rule, the TNC is at a disadvantage relative to local competitors in terms of understanding the local environment and culture.

Oligopolistic FDI theory suggests that in a dynamic context of oligopolistic actors and reactors acquisition activities are usually initiated by a foreign TNC from a developed economy acting as the leader “first mover,”. Carrow et al. 2004. Thereafter, in order to retain their relative market shares, the followers, also from developed economies, tend to speed up their foreign production activities via acquisitions in terms of a “follow-the-leader” strategy or of an “exchange of threat” strategy. Graham 1990; Knickerbocker 1973

Dunning 2000 adds that; oligopolistic competition of this type also drives foreign MNCs to seek attractive targets in smaller economies. In this oligopolistic scenario, other (normally smaller) domestic firms from these economies are likely to fear becoming an acquisition target themselves. Consequently, they are faced with two options: to buy or to be bought.

Chudnovsky and Lopez 2000; UNCTAD 2000 confirm that this is the reason MNC's react and attempt to resist competition from the foreign MNCs by building up their own conglomerates such as multi-product firm groups through acquisitions, thus, international acquisitions both compete against and stimulate domestic acquisitions. Domestic takeovers are used by companies as a means of creating the critical mass of resources needed to remain competitive at home and to expand their production and marketing system abroad, contributing to the formation of new competitive conditions regionally or worldwide, in other words, national market concentration via acquisitions may also be a precondition for penetration into foreign emerging markets and, by extension, a basis for the foundation of so-called "third world multinationals." Recently, Greek companies have been augmenting their strategic ownership assets through takeovers in emerging Eastern European Markets. Tichy 2001; UNCTAD 2000. That is, firms which are large, and which occupy a monopolistic market position ("national champions") are better placed to resist a takeover attempt, especially a hostile one. The competitive cycle may be completed by the potential oligopolistic reaction on the part of the leaders and followers that may try to acquire these newcomers. Tichy 2001.

2.3 Acquisition Target Identification

2.3.1 Market structure and cross-border acquisitions

Dunning 2000 identifies four distinct types of reasons as to why organisations internationalise:

1. Market seeking, or demand specific, fdi. This is seen as an organisational reason which is aimed at satisfying the needs of one or more foreign markets.
2. Resource seeking or supply specific, fdi. This is seen as an organisational reason which is aimed at obtaining access to natural resources. Natural resources like agricultural products, labour and minerals.
3. Rationalized or efficiency seeking fdi. Those activities which are constructed to make the asset and labour specialisations more effective. Dunning sees this step as related but "sequential" to the first two points.
4. Strategic asset seeking fdi. Those activities which would protect or supplement the current acquirers specific advantages of the organisation, while at the same time possibly reducing those of their competitors. Dunning. 2000 refers to this behaviour as "strategic asset seeking fdi".

The international industrial organization (IO) approach suggests that the acquisition decision of foreign Transnational Corporation (MNC's) is positively influenced y the market structure of the domestic target. This means that acquisition entry in highly concentrated industries avoids the creation of new capacity, and by extension a price war between incumbents and the entrant (Caves and Mehra 1986), and reduces the possibility of retaliation by existing incumbents in the industry (e.g., Elango and Sambharya 2004).

Elango and Sambharya 2004, further point out that in a small open economy, foreign entry by acquisition has been observed to be more common in industries that are already concentrated. High market concentration and high barriers to entry in these industries together with the small size of the overall domestic market obstruct the entry of domestic buyers. These specific industry conditions, which are mainly the outcome of monopolistic FSAs, and large dissimilarities in specific ownership assets between domestic and foreign acquirers, may explain substantial differences between cross-border and national targets.

Fukao et al. 2005 suggests that, international targets appear to be more attractive than the national targets which focus on smaller domestic operations located in more competitive industries with more homogeneous products. Particular attractive targets that exhibit key characteristics of economic success can be used by international acquirers to their own advantages.

2.3.1.1 Market share

Fukao et al. 2005 suggests that market share is one of the most useful means used in assessing the structure of the market and a particularly desirable characteristic of a target firm. This is usually couched in terms of having a "good market position" in the relevant market. The specific target criterion is of special consideration in sectors which may show a high degree of stability of market structure (as compared to those which are characterized by technology intensity, low entry barriers and powerful competition, showing high volatility of market shares). As a result, it is expected that the market share variable will bear a positive coefficient in explaining the likelihood of foreign acquisition.

2.3.1.2 Capital intensity

Lall, 1980, argues that higher capital intensity is strongly related to oligopolistic competition and to IO theory because it is commonly regarded as a "concentration-promoting factor" which demands large-scale resource commitment (such as large minimum investments), presumes imperfect conditions in capital markets (i.e. better access to capital sources for firms with high capital intensity), permits a higher level of automation and raises technical standards, thus, contributing to higher productivity.

2.3.1.3 Product differentiation

Product differentiation is treated as an indicator of the existence of FSAs and it is closely related to the creation of barriers to entry, to the realization of monopolistic gains and to the degree of concentration in an industry (Caves, 1971).

2.3.1.4 Concentration

Lall, 1980 further suggests that; the dimension of the entry barriers can be inter alia operationalized via the degree of firm concentration within the industry. Industry structure may influence acquisition mode. In other words, foreign and domestic acquirers may enter different markets as far as the degree of concentration of these markets is concerned. For instance, foreign acquirers would appear to prefer entry to markets with a high degree of concentration, on the one hand because they have the ability to do this—due to their possession of FSAs as compared to domestic competitors—and on the other hand because competitive markets (that is, those populated by a large number of firms) may be a force which increases the likelihood of mortality. Therefore, in a highly concentrated industry, market entry is more likely to be via international acquisitions, whereas in industries with low concentration, entry would more likely be by domestic acquisitions.

2.4 Risk Management

2.4.1 Defining Risk

Risk is defined as a condition of uncertainty in which there may be a negative outcome (Hubbard, 2007). By contrast, uncertainty is defined as a condition in which a number of possibilities could result from a decision made (Hubbard, 2007). Many strategic business decisions are risky. For example, a green field investment, a joint venture or an acquisition are all potential paths to enter into new markets, but each carries different trade-offs resulting in higher or lower levels of risk. Business managers are continually balancing the opportunity inherent in a decision with the accompanying risk.

Income stream uncertainty is the traditional measurement used in research studies to approximate risk-taking by firms (Bromiley, 1991; Nickel & Rodriguez, 2002). Theoretically, firms that take few risks should have more stable, predictable income streams than those that take many.

2.4.2 Risk-taking behaviour of business leaders

Bowman (1980) believed that good managers have the skill to simultaneously reduce risk while increasing returns by interpreting their environmental context accurately and taking proactive and strategic steps to respond appropriately to opportunity (Andersen, Denrell & Bettis, 2007). Andersen (2009) found that good managers can manage risk effectively by maintaining low financial leverage while also proactively investing in innovative efforts that build the firm's core capabilities. Shapira (1995) supported Bowman's (1980) and Andersen's (2009) findings by arguing that, while a good managers take high risks, they must reduce the level of this risk over time.

Emerging market firms, in contrast to developed market firms for which most of the prevailing risk literature is based on, often do not have the luxury of remaining idle. They must adjust regularly in response to the volatile pressures in their environment. The question becomes not should they act, but rather how should they act. Still, many developed market firms are saddled with a legacy of cultural values not conducive to fast adaptability and growth.

2.4.3 Political Risk

Blomström and Kokko, (2003) state; that a solid understanding of the role of MNEs in emerging economies is vital both for policymakers and for MNEs themselves. Policymakers are influencing the regulatory regime under which both MNEs and local business partners operate. They are interested in understanding how foreign direct investment (FDI) influences economic development and national welfare. The expectation that FDI will benefit the local economy has motivated many governments to offer attractive incentive packages to entice investors. The rationale is that the social benefits of inward FDI would exceed the private benefits of FDI, and investors would take into account only the latter when deciding over investment locations. The policy debate needs scientific evidence on how, and to what extent, FDI influences the local environment.

With globalization and the growth in emerging economies, multinational coporations (MNCs) now frequently confront challenges associated with corrupt governments. Already, a growing body of research has demonstrated that corruption significantly reduces a country's aggregate inflows of foreign direct investment through its effects on firm performance. Uhlenbruck ; Rodriguez ; Doh ; and Eden , (2006)

Rodriguez et al. (2005); states that Government corruption has become a serious problem for international organizations and individual nation states. Corruption-i.e., the abuse of public power for private benefit-has been shown to significantly diminish both macroeconomic development and firm-level growth. Research on corruption has emphasized its strong economy wide effects and, more recently, its significant implications for firms.

2.5 Experience and Knowledge

Emerging markets are well known for their challenging and volatile business environments due to institutional voids such as inadequate infrastructure, skills shortages, crime and/or corruption, insufficient legal protection, challenging distribution systems, poverty, etc. (Khanna & Palepu, 2006). Although there is little question that these institutional voids are a disadvantage to firms coming from emerging markets, Yui *et al* (2007) and Dawar and Frost (1997) found that firms develop certain core capabilities by getting around the institutional challenges within their home environment that may "travel well" to other tough emerging market environments. Khanna and Palepu (2006) support this view by arguing that MNEs which have encountered and learned effective ways of working around "institutional voids" in their home markets, are more likely to be adaptable and creative when finding solutions to institutional constraints in other emerging market economies, giving them a distinct competitive advantage over MNEs from developed economies. For example, Cuervo-Cazurra and Genc (2007) found that by learning to adapt, EMNEs can use these lessons to enter other emerging markets that developed market firms might consider too risky to do business with Aybar &Thirunavukkarasu, (2005).

Maranto-Vargas and Rangel (2007) and Andersen, Denrell and Bettis (2007) also found firms that are able to shift their business models in response to changing environments were most able to match their global competitors. Andersen (2009) argues that the most important determinant of firm performance is management's ability to align their strategy and firm operations to the prevailing environmental conditions. They contend that firms must have the capability to assess changes in their environment, develop an appropriate response to these environmental changes and then mobilise their internal resources to respond appropriately.

Emerging market firms in particular become used to a high level of uncertainty and as a result develop flexible responses to environmental challenges (Cuervo Cazurra & Genc, 2007). Therefore an emerging market MNE develops firm specific advantages to deal with their home environment outside of the more conventional capabilities necessary in developed economies, which can be an important source of competitive advantage. However Klein and Wöcke (2007) disagree, finding that strong visionary leadership and home country dominance are more important, contrary to the view that EMNEs would react similarly faced with identical environmental conditions.

2.6 Integration

Mergers and Acquisitions are a form of hybrid in which integration is the means by which such inter-firm coordination and system controls are achieved. As such, integration involves actions taken to secure the efficient and effective direction of the organisational activities and resources toward the accomplishment of some set of common organisational goals.

These actions may involve adapting the firm's value- generating activities to realise technical synergies. Altering bureaucratic mechanisms of authority and control to ensure internal coherence, and transforming systems of values, beliefs, and practise to create congruent organisational frames of reference. (Schweiger, Csiszar, & Napier 1994)

2.6.1 Levels of Integration

There is no unified perspective on what determines the level of integration in a merger of acquisition. However, focusing on integration as a means for achieving post acquisition or merger coordination and control makes it apparent that there are three primary themes in the acquisitions literature upon which a theoretical framework for understanding integration design decisions can be based.

2.6.1.1 Task characteristics

Haspenslagh & Farquhar, 1987 argues that the realisation of this synergistic potential requires that two important tasks be accomplished to achieve the appropriate degree of inter-firm coordination:

a) A strategic task
b) An organisational task

A strategic task can be defined as the successful sharing or exchange of the critical skills and resources that form the foundation of the value creation. The accomplishment of the strategic task requires, however that target-specific bases of those critical skills and resources be kept intact.

The organisational task, therefore, is the preservation of any unique characteristics of an acquired firm that are a source of key strategic capabilities.

Both strategic and organisational tasks have implications for integration activities. The strategic task requires that links be developed between the combining organisation's value activities and that the organisational context be appropriate to support those links.

Buono & Bowditch. 1989, further argue that in order to understand integration design, the strategic intent of a merger or acquisition must first be understood as strategic intent has at its core the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organisations.

2.6.1.2 Cultural characteristics

In merger and acquisition situations, as in broader organisational contexts, culture is an important "internal variable" (Smircich 1983). That is, culture is critical in the configuration of a total organisational system, influencing the effectiveness of the organisation in its environment. Thus, in mergers and acquisitions, culture can have an instrumental affect on both the coordination and control functions of integration, as it can operate to generate commitment to the larger organisation (Siehl &Martin 1981), enhance organisational stability in a situation of dramatic change (Louis,1980), and convey a sense of identity to organisational members (Deal & Kennedy, 1982).

From this perspective, an organisation's routine approach to the management of culture has implications for how it is likely to design integration activities, independent of the task- based needs of the situation.

2.6.1.3 Political characteristics

Hambrick & Cannella, 1993, are of the view that mergers and acquisitions are situations in which relational difficulties are commonplace, reflecting the adjustment by the two organisations to new, and often hierarchically altered, roles vis a' vis each other. Furthermore, conflict frequently develops between the acquiring and acquired organisations over the new mandate and terms of reference as a result of the pre-acquisition or merger use of ambiguity to facilitate negotiations (Jemison & Sitkin, 1986), an acquirer's lack of understanding of the acquirer's activities and the latter's failure to internalize the acquirer's goals (Shanley, 1987)

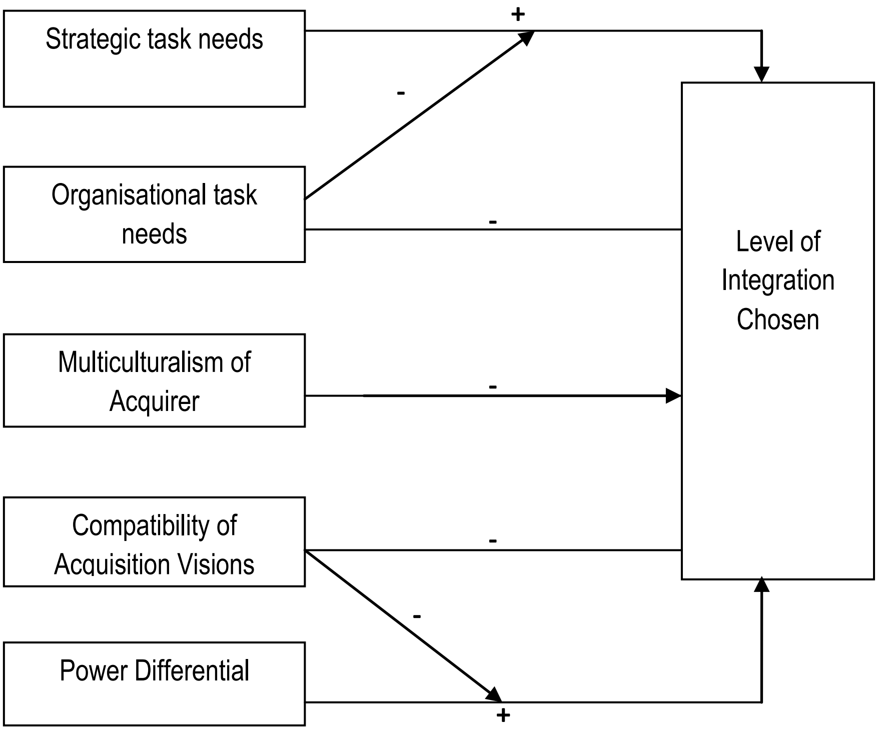
Shanley, 1987, further states that in such situations, the acquirer may take actions, including the exercise of power, to ensure that its goals in the acquisition are being pursued. The political characteristics of an acquisition speak to the extent to which power is likely to be used to achieve preferred organisational actions and outcomes. This perspective emphasizes the control function of integration as a means of curbing inter-organisational conflict over acquisition means and ends.

From an acquirer's perspective, therefore, two key elements in the integration design decision are the perceived need to exert power and the ability to do so. The extent of the perceived need to use power will depend upon the degree to which the target has a vision of essential actions and outcomes in the acquisition that is compatible with the acquirer's.

These theories can be illustrated in a framework within which managers can take integration decisions designed to achieve the coordination and control of activities between previously independent organisations. Figure 1 presents this model.

FIGURE1

Model of hypothesised Relationships



2.7 Organisational performance

The linkage between internationalization and firm performance has been intensively studied in international business literature. The main focus has been on multinational enterprises (MNEs). One of the earliest studies analyzes the effect of internationalization on enterprise performance using a sample of U.S. enterprises and finds significant positive linear effects Hymer (1960). Numerous other studies focus on finding the relationship between internationalization and firm performance and propose various types of linkages, namely, a linear positive effect U-curve and an inverted U-curve. Qian (2002), Ruigrok and Wagner (2003)

The size of an enterprise also affects the linkages. Both in developing and industrialized countries, an inverted U-shaped relation between firm size and internationalization has been recognized however there is also a strong support for positive linkage. Majocchi et al. (2005).

Geringer et. al. (2000); Zahra et. al. (2000) have suggested that the applied measures for internationalization of a firm are recognized as sales development and profitability development measured by net profit, but there seems to be a much higher level of uniformity with the independent variable, which is the level of internationalization. The proportion of foreign sales to total sales is almost a standard measure, but it has recognized shortcomings such as the inability to diversify between foreign markets. Thomas and Eden, (2004).

Aulakh *et al.* (2000) found that for internationalising emerging country firms, differentiation strategies (as opposed to cost-based strategies) enhanced performance in other emerging countries. The authors argue that the shortage of products and competitors in emerging markets provide tremendous opportunities for other emerging market firms to pursue differentiation strategies.

London and Hart, (2004) further argue that another advantage of emerging market firms compared to their developed counterparts is that when entering other emerging markets, their marketing strategies do not consider Western-style development but emerging market economic development. They further state that firms from emerging countries outperformed their counterparts from developed markets when entering other emerging markets owing to their resource endowments of lower cost inputs, affiliation with a business group, ethnic considerations in the host country, and technology and management that are adapted to the host country conditions.

Chapter 3: Research Propositions

Zikmund (2003); puts forward the idea that a proposition is a statement that has its main concern the relationship between concepts. Propositions are thus allegations that there is a general connection between concepts which may be true. They are not statements of fact, but proposed links between two or more concepts or ideas.

Three propositions are put forward in this study, and a brief discussion of how each of the propositions was formulated is provided below with each proposition stated in bold.

The propositions were formulated building on both the literature surrounding the theories of Emerging Markets and Mergers and Acquisitions with specific focus on variables that determine success in the market entry strategy used by DMMNC and EMMNC. They are placed in the different variables: Risk Appetite and Tolerance, Experience and Knowledge and Acquisition Target Identification.

The following Propositions were made in accordance with the objectives of the study:

Research Question:

Are there differences in the execution of variables that drive successful of Mergers and Acquisitions in Emerging Markets when comparing EMMNC's to DMNC's?

3.1 Proposition One (Risk Appetite and Tolerance)

The linkage between internationalization and firm performance has been intensively studied in international business literature. The main focus has been on multinational enterprises (MNEs). One of the earliest studies analyzes the effect of internationalization on enterprise performance using a sample of U.S. enterprises and finds significant positive linear effects Hymer (1960). Numerous other studies focus on finding the relationship between internationalization and firm performance and propose various types of linkages, namely, a linear positive effect U-curve and an inverted U-curve. Qian (2002), Ruigrok and Wagner (2003)

Lall, 1980, argues that higher capital intensity is strongly related to oligopolistic competition and to IO theory because it is commonly regarded as a "concentration-promoting factor" which demands large-scale resource commitment (such as large minimum investments), presumes imperfect conditions in capital markets (i.e. better access to capital sources for firms with high capital intensity), permits a higher level of automation and raises technical standards, thus, contributing to higher productivity.

The size of an enterprise also affects the linkages. Both in developing and industrialized countries, an inverted U-shaped relation between firm size and internationalization has been recognized however there is also a strong support for positive linkage. Majocchi et al. (2005).

Proposition 1:

The Board and Shareholders of DMMNC's have greater risk appetite and tolerance for mergers and acquisitions in emerging markets because of the higher exchange rates in currency thus making the capital investment in emerging markets cheaper in their balance sheet as opposed to EMMNC's that have lower currencies when compared to the US Dollar as a trade currency thus making acquisitions more expensive in the organisations balance sheet.

3.2 Proposition Two (Experience and Knowledge)

Emerging markets are well known for their challenging and volatile business environments due to institutional voids such as inadequate infrastructure, skills shortages, crime and/or corruption, insufficient legal protection, challenging distribution systems, poverty, etc. (Khanna & Palepu, 2006). Although there is little question that these institutional voids are a disadvantage to firms coming from emerging markets, Yui *et al* (2007) and Dawar and Frost (1997) found that firms develop certain core capabilities by getting around the institutional challenges within their home environment that may "travel well" to other tough emerging market environments.

Khanna and Palepu (2006) support this view by arguing that MNEs which have encountered and learned effective ways of working around "institutional voids" in their home markets, are more likely to be adaptable and creative when finding solutions to institutional constraints in other emerging market economies, giving them a distinct competitive advantage over MNEs from developed economies.

For example, Cuervo-Cazurra and Genc (2007) found that by learning to adapt, EMNEs can use these lessons to enter other emerging markets that developed market firms might consider too risky to do business with Aybar &Thirunavukkarasu, (2005).

Maranto-Vargas and Rangel (2007) and Andersen, Denrell and Bettis (2007) also found firms that are able to shift their business models in response to changing environments were most able to match their global competitors. Andersen (2009) argues that the most important determinant of firm performance is management's ability to align their strategy and firm operations to the prevailing environmental conditions.

Proposition 2:

Organisations that have experience and knowledge in mergers and acquisitions stand a much better chance of making a success of this market entry strategy in emerging markets as they understand the dynamics involved in the various variables required to make it a success and quickly realise shareholder return on investment.

3.3 Proposition Three (Identification of Target)

The international industrial organization (IO) approach suggests that the acquisition decision of foreign Transnational Corporation (MNC's) is positively influenced by the market structure of the domestic target. This means that acquisition entry in highly concentrated industries avoids the creation of new capacity, and by extension a price war between incumbents and the entrant (Caves and Mehra 1986), and reduces the possibility of retaliation by existing incumbents in the industry (e.g., Elango and Sambharya 2004).

Elango and Sambharya 2004, further point out that in a small open economy, foreign entry by acquisition has been observed to be more common in industries that are already concentrated. High market concentration and high barriers to entry in these industries together with the small size of the overall domestic market obstruct the entry of domestic buyers. These specific industry conditions, which are mainly the outcome of monopolistic FSAs, and large dissimilarities in specific ownership assets between domestic and foreign acquirers, may explain substantial differences between cross-border and national targets.

Fukao et al. 2005 suggests that market share is one of the most useful means used in assessing the structure of the market and a particularly desirable characteristic of a target firm.

Building on the fundamentals of the country analysis to include the strategic vision or direction of the firm is the key to maintaining the organisations strategic momentum. Organisations within certain industries engage in different kinds of MNC activity. From the literature Dunning.2000 puts forward four types of reasons as to why organisations go into different countries:

1. Market seeking
2. Resource seeking
3. Rationalised or efficiency seeking; and
4. Strategic asset seeking

From the literature it is clear that organisations that internationalise must be clear on their strategy and the strategy of the target organisation so as to leverage off each other's synergies. It would be difficult to make an assumption as to which category organisations in a particular industry fall into as that would be determined by the stage at which the organisation is in and the competencies it already has.

Proposition 3:

In Emerging Markets the alignment of strategic expansion objectives between the acquirer and the target organisation makes it easier and quicker to realise shareholder return on investment (ROI) through leveraging of synergies.

3.4 Proposition Four (Integration)

Mergers and Acquisitions are a form of hybrid in which integration is the means by which such inter-firm coordination and system controls are achieved. As such, integration involves actions taken to secure the efficient and effective direction of the organisational activities and resources toward the accomplishment of some set of common organisational goals.

Buono & Bowditch. 1989, further argue that in order to understand integration design, the strategic intent of a merger or acquisition must first be understood as strategic intent has at its core the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organisations.

The literature puts forth the view that the synergies to be realised from the acquisition must be identified prior to the acquisition taking place as that makes it easier for the integration process and to leverage each other's competencies.

Proposition 4:

The method through which the target organisation is integrated into the acquirers business determines the time it takes to realise returns for shareholders post the merger or acquisition.

Chapter 4: Research Methodology and Design

This chapter discusses the research methodology and design that was used to address the propositions stated in Chapter 3.

4.1 Methodology

4.1.1 Research Design and Type

For this study a qualitative research methodology has been followed as it requires an exploratory research strategy where interviews with selected company executives have been conducted. A case study methodology has been used to assess the internationalisation process through mergers and acquisitions for the chosen multinationals.

Case studies allow researchers to study an organisation and its environment in a natural setting and obtain rich insights into complex processes (Yin, 1994). The dual case approach has been an increasingly popular methodology within the retail internationalisation literature and has enabled various researchers to provide important new insights into the field. Palmer and Quinn, (2007); Sparks, 2000). Additionally, exploratory methods such as case studies have been recognised as being particularly useful for examining strategies in emerging markets. Hoskisson *et al.* (2000).

Uhlenbruck et al., (2006) suggests that following extant studies in the M&A and internationalization literature, several control measures, such as past firm performance, firm size and firm age, Sapienza, Autio, George, & Zahra, (2006) of the acquirer firm must be incorporated in the regression model. It is likely that better-performing firms self-select the type of acquisition they make, resulting in a favourable response from the market.

4.1.2 Research Method, Type, Technique and Tool

Data collection has been through interviews with the Group Executives of the corporations as well as senior managers in the mergers and acquisition divisions. The interview questions are provided in addendum 1. Other sources of data were used to supplement and give further weight to the results of the interviews. Additional sources included company financial where available, magazines, circulars to shareholders, reviews by company executives and presentations to shareholders. The in-depth case interviews were conducted with those executives that were engaged at the strategic decision making level of the company and were chosen for their ability to provide rich source of accurate and relevant information.

Qualitative research is a method of inquiry employed in many different academic disciplines, traditionally in the social sciences, but also in market research and further contexts. Adler, P. A. & Adler, P. (1987). Qualitative researchers aim to gather an in-depth understanding of human behaviour and the reasons that govern such behaviour. The qualitative method investigates the *why* and *how* of decision making, not just *what*, *where*, *when*. Hence, smaller but focused samples are more often needed, rather than large samples.

Adler, P. A. & Adler, P. (1987) further suggest that qualitative methods produce information only on the particular cases studied, and any more general conclusions are only propositions (informed assertions).

4.2 Population and Unit of Sample

The population of relevance has been on two multinational corporations who have a base in a developed market as well as those with a base in emerging markets. These have made mergers and acquisitions in emerging markets. The interviews have been conducted with Group Executives of the corporations as well as senior managers in the mergers and acquisition divisions as well as corporate development divisions.

4.3 Research Limitations

Due to the nature of this study, including time constraints, various constraints have already been identified: These include:

- A limited sample of companies has been used.
- The multinationals that have been used are in different industries and therefore comparisons have been different however the applied principles have been similar.
- No intensive quantitative research methodology has been used to test any financial performance of the organisations with whom interviews have been conducted

The decision to choose the two organisations from two different industries has been due to the fact that both have successfully acquired and mergered organisations in emerging markets. Therefore this becomes an interesting piece of research to understand if the same principles in the execution of the various acquisition and merger variables are similar or different. The fact that the acquirers are from two different economies emerging and developed makes the research even more interesting to test this theory.

These cases present clear arguments that the method and speed at which the Merger variables are applied post an acquisition determine the speed at which shareholder value can be realised by the acquirer as well as generally determine whether an acquisition in an emerging market would be a failure or success.

Chapter 5: The acquisition of Absa by Barclays

Overview

The case used in response to the Propositions as stated in Chapter 3, is that of the acquisition of South African Absa bank by the United Kingdom Barclays bank. This case has been imperative because Barclays already has made 10 acquisitions in the Emerging markets and the test is whether this experience and resources gives it a competitive advantage over an organisation from an Emerging Market that engages in mergers and acquisitions in the same market in terms of principles of this market entry strategy.

5.1 Background on Barclays

Barclays Group was the world's tenth largest banking organisation by market capitalisation. It has more than 2 900 branches and employs around 78 000 people worldwide. Whilst based in the United Kingdom, Barclays had an extensive international reach, serving over 18 million customers in more than 60 countries.

Barclays had strong Aa1 / AA credit ratings*, a large, stable capital base and preferential access to the capital markets. As at 31 December 2004, Barclays had GBP522 billion (R5 965 billion) of total assets and reported a 2004 annual pre-tax profit of GBP4.6 billion (R52.6 billion) under UK GAAP. Circular to Absa Shareholders 2005

Barclays had successfully acquired and integrated a number of businesses in the past, including in 2003 the GBP803 million acquisition of Banco Zaragozano, a leading Spanish retail and commercial bank.

According to the Circular to Absa Shareholders 2005; the Barclay's structure was as detailed below:

UK Banking included the UK retail (including small business) banking and UK banking businesses. UK retail banking provides retail products and services, including current accounts, mortgages, savings and general insurance across 2 061 branches while small business provides banking services to around 566 000 small businesses. UK business banking provides relationship banking to medium and large business customers. Barclay's market shares of primary relationships in the UK for large and medium businesses are 26% and 25% respectively.

Barclaycard provided credit card and consumer lending services in Europe (UK, Germany, Spain, Greece, France, Italy, Portugal and the Republic of Ireland), the United States and Africa. Barclaycard was a leading credit card business in Europe and is pursuing an international growth strategy.

International Retail & Commercial Banking was Barclay's non-UK banking operations, including Barclays Africa. Barclays provided a range of banking services, including current accounts, savings, investments, mortgages and consumer loans to personal and corporate customers across Spain, Portugal, France, Italy, Africa (through Barclays Africa), the Middle East and through its associated undertaking in the Caribbean.

Barclays Capital was the Barclays Group investment banking division with a focus on financing and risk management and acts internationally as an intermediary and adviser to corporates, financial institutions, governments and supranational organisations, with offices in 22 countries.

Barclays Global Investors (BGI) was one of the world's largest institutional asset managers with over GBP700 billion of assets under management and is a global leader in exchange traded funds.

Barclays Private Clients consisted of the International and Private Banking operations and Wealth Solutions business (which includes Barclays Financial Planning, Barclays Stockbrokers and the Gerrard business which was acquired in 2003). Barclays Stockbrokers was the largest execution-only broker in the UK.
Barclays has a world-class, innovative product range. Particular strengths include consumer finance (Barclaycard launched the UK's first credit card), debt capital markets and business banking. Recent product innovation included customer propositions such as Open Plan (an offset mortgage product).

In terms of skills and capabilities, Barclay's specific strengths included: leading-edge customer relationship management, with advanced customer data gathering, analytics and action prompting; customer-centric product packaging, marketing and branding, and risk management, including risk-based pricing, automated credit approvals and information based customer management.

Barclays Africa

Barclays Africa was a leading international bank in the sub-Saharan region, where it had operated for nearly 100 years.

Barclays Africa generated approximately R1.3 billion of pre-tax profits for the year ended 31 December 2004 and had total assets of approximately R44.4 billion, with 1 200 000 retail and business/wholesale customer accounts served by 6 200 employees through 230 branches.

In the Circular to Absa Shareholders 2005; it is stated that in these markets, Barclays has a strong domestic franchise and offers a broad range of retail and corporate products and treasury activities.

Barclays South Africa branch business focused on treasury, corporate banking and business banking. The wealth management division of international banking was also represented in South Africa. Barclays was not engaged in retail banking in South Africa, apart from a small presence in credit card issuing.

5.2 Background on Absa

Absa was incorporated in South Africa on 2 October 1986. The primary listing of Absa Ordinary Shares is on the JSE. Absa Ordinary Shares also trade on the OTC Bulletin Board in New York in the form of American Depository Receipts.

Absa was formed in 1991 as Amalgamated Banks of South Africa Limited (Absa) through the merger of UBS Holdings, the Allied and Volkskas Groups, and certain interests of the Sage Group. In 1992 Absa acquired the entire shareholding of the Bankorp Group (which included TrustBank, Senbank and Bankfin), thereby extending its asset base even further. In 1997 the name of the holding company, Amalgamated Banks of South Africa Limited was changed to Absa Group Limited, consisting of three main operating divisions. In 1998 the United, Volkskas, Allied and TrustBank brands were consolidated into a single brand, and Absa adopted a new corporate identity.

The Absa Group was one of South Africa's largest financial services organisations, serving personal, commercial and corporate customers in South Africa. Absa also provided products and services to selected markets in the United Kingdom, Germany, Singapore, Hong Kong and elsewhere in Africa. Absa was a leading player in the home loan, instalment finance, and debit and credit card markets.

The Absa Group offered a full range of products and services in personal, commercial and corporate banking, and also in insurance and financial services. The Absa Group interacted with its customers through a combination of physical and electronic channels, offering the full spectrum of banking services, from basic products and services for the low-income personal market to customised solutions for the commercial and corporate market.

5.3 Emerging Market Internationalisation

The Barclays internationalisation strategy was driven by the fact that in the domestic market it had reached it maturity and shareholders demanded greater returns on their investments. Furthermore Barclays was accelerating its strategic priorities, which entailed developing its retail and commercial Banking activities in selected markets outside the UK' as well as accelerate growth of global product businesses.

According to the Circular to Absa Shareholders 2005 (Report), Barclays viewed South Africa as an attractive market with good growth prospects and a sophisticated economic and financial services infrastructure. The Recommended Acquisition accelerated Barclay's strategic objective of building its retail and commercial banking, investment banking and credit card presence in selected international markets. As one of South Africa's big four banks and the leading retail bank, Absa was an excellent partner for Barclays to expand its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa. (2005,p 63)

However in the interview the Head of Corporate Development at Absa stated that........... "*the reason organisations internationalise can be based on a number of reasons for example egos of CEO's to prove that they have done something different in the organisation during their term, giving money back to shareholders is seen as a sense of failure that the CEO could not be creative to grow the business and generate greater returns for shareholders"*

5.4 Mergers and Acquisitions as mode of entry

When embarking on an internationalisation growth strategy the multinationals first rank countries among other things based on their gross domestic product levels, political stability, time zones and language. Subsequent to the identification of a target entity, a market entry strategy is determined be in organic or inorganic.

In the presentation to Johannesburg Shareholders (2006, p3), From an Absa point of view the time was right to expand banking operations in Africa, the global and African macro-economic factors were favourable from increased aid and debt write-offs to trade incentives such as Angola, are having their effect on Africa. African economies are growing, and inflation is down. These factors presented a viable case that the timing was right to expand in Africa, and the Barclays transaction gave the opportunity to accelerate that expansion.

5.5 Acquisition Target Identification

5.5.1 Identification of South Africa as a target country

According to the Circular to Absa Shareholders 2005, For Barclays, South Africa was an attractive market because of its strong macro economic growth prospects, its attractive banking market with excellent growth prospects and returns and its sophisticated economic and financial services infrastructure.

5.5.2 Identification of Absa as a target bank

In the South African context Absa had a strong and growing earnings base, extensive multi-channel distribution network, was a highly-rated South African financial services brand with complementary African operations, over and above that it had a great leadership team, with similar values.

As one of South Africa's big four banks and the leading retail bank, Absa was an excellent partner for Barclays to expand its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa. Circular to Absa Shareholders 2005

In the April 7th Finweek magazine 2006; Steve Booysen the Chief Executive of the Absa Group presented a collective executive view on the lessons that had been learnt from the deal. The key points he eluded to that ensured the success of the Barclays and Absa deal were as follows

The importance of strategy as........ "*Clearly defined strategies of both parties were critical so that both parties could understand who wanted what from the deal from the word go"*

Booysen described the integration as......... *"The Long drawn out process / courtship more helpful than frustrating because, it helped to bridge the divide between idea and action, expectations and reality sometimes have a bit of distance to cover especially when having to transforming our business and possibly the financial services industry in SA and Africa and that gave ourselves enough time to Get to know and respect one another"*

5.6 Risk Management

During a merger or an acquisition it is imperative for a multinational to manage the political risk and show some positive form of commitment to the well being of the country. This assists in getting buy-in from the respective government, customers and employees of the target entity.

In the Absa acquisition by Barclays, Barclays committed R33 billion to the deal, the largest foreign direct investment in South African history at the time. They undertook to maintain the Absa listing on the JSE and meaningful free float. Furthermore a strong commitment to broad-based black economic empowerment (BEE) was emphasised. Banking and other financial services would be extended to the under-banked in South Africa and finally the bank would provide a leading exponent of Corporate Social Responsibility. Presentation to Johannesburg Shareholders (2006),

According to the presentation to April 6th report by Ernest & Young; On understanding the two businesses Steve Booysen said that……….*"Conducting a thorough analysis / due diligence (which has proved invaluable), both sides took time, the Integration team benefited from completeness and collaboration and most importantly plan the implementation of the transaction in detail"*

……..*"It took a lot of time to get leadership to buy in – started with small team and then beefed up as we gained momentum. We had to keep an open mind on how to extract value for the benefit of all shareholders. The common bond of a shared value system, namely making Absa the leading bank in SA and the pre-eminent bank in Africa and the understanding that both parties have lots to give and receive from one another and that, that takes the best of both and build something special" said Booysen.*

In the interviews the Head of Absa Corporate Development stated that........... "*Whilst global focus is important, first priority is local delivery as discussed in the strategic view, therefore sticking like glue to the goal of achieving business as usual results, never a one size fits all approach that works in practise as there are plenty of pockets of excellence to be exploited and quick wins need to be exploited early on"*

5.6.1 Management of Risk and Regulation

According to the Barclays offer to Absa document (2005); both organisations have been committed to the highest corporate governance standards. However the fact that Absa has now become a "member of the Barclays Group" as our corporate identity now states, has other implications.

Further more in the document it is stated that, Absa would now subject not just to the South African regulatory and corporate governance standards, but also subject to global compliance legislation, such as the Sarbanes-Oxley Act passed in the United States after the Enron and other corporate disasters.

5.7 Experience and Knowledge

Synergies and aligned strategic intent is always important to the success of a merger or acquisition and according to the Barclays offer to Absa (2005), this was the case where:

Absa's strategic intent was to be:

- The leading financial services business in South Africa
- And ultimately, the pre-eminent bank on the African continent
- Absa's board defined a strategy to partner with a significant global player

From a Barclays point of view there was great basis for building the pre-eminent bank in sub-Saharan Africa, operations were complementary, there were only two countries both banks had operations – Zimbabwe and Tanzania.

Barclays had successfully acquired and integrated a number of businesses in the past, including in 2003 the GBP803 million acquisition of Banco Zaragozano, a leading Spanish retail and commercial bank. Circular to Absa Shareholders (2005)

Barclays Africa is a leading international bank in the sub-Saharan region, where it has operated for nearly 100 years.

5.8 Integration

One of the key variables important that an organisation should get right for a successful merger or acquisition to realise shareholder value in a short space of time is to ensure quick and smooth integration of the acquired entity into the acquirers business.

In the Barclays Deal Lessons learnt document 2006 it is stated that; Both the Absa and Barclays Boards support the vision of creating the pre-eminent bank on the African continent and have agreed in principle, as soon as reasonably possible after the completion of the recommended Acquisition and subject to regulatory approval:

- To integrate Barclays South Africa and other Barclays Africa businesses with Absa; and
- To integrate, as appropriate, Absa's international businesses in London, Germany, Hong Kong and Singapore with Barclays.

5.8.1 Leadership Integration

The type of leadership and style are key in the delivery of strategy; therefore an alignment between the acquirer and the acquired target on the vision, values and tactical approach of strategy execution are of utmost importance. The views shared by both organizations on this matter were similar and supported this view.

On the common value system Booysen said………. *"In this process we have learned and are still learning about the complexities of making the most of all the opportunities in a transaction like this, critical overlap in Absa and Barclays values, in a global world we have to be sensitive and respectful of culture, but insistent on the right values, committed people for whom business excellence is built on a foundation of loyalty, pride and discipline"*

……."*It took a lot of time to get leadership to buy in – started with small team and then beefed up as we gained momentum. We had to keep an open mind on how to extract value for the benefit of all shareholders. The common bond of a shared value system, namely making Absa the leading bank in SA and the pre-eminent bank in Africa and the understanding that both parties have lots to give and receive from one another and that, that takes the best of both and build something special"* said Booysen. Barclays Deal Lessons learnt document (2006)

Absa would have one new Barclay's executive director, while the Sanlam and Remgro representative directors have been replaced by two new Barclay's non-executive directors. Barclays offer to Absa (2005)

The executive management was drawn from the existing Absa leadership team and selected Barclay's nominees.

Dr Danie Cronje the Absa Chairman became a member of the Barclays board. Dr Cronje said.......... "*There have been a number of staff interchanges/transfers between our two groups and this form of implementation within the first year laid the foundation for future success".* Barclays offer to Absa (2005)

5.8.2 Integration of Operations

As with the integration of leadership, the execution of strategy to realise shareholder value is dependent on the proper integration of operations so as to realise the intended synergies and economies of scale. The success of this is driven by the successful integration of leadership who will drive the production engines of the organisation.

Steven Booysen the Absa CEO said*......... "The enhancement of global reach enhanced the services that can be offered to customers. Absa's international operations have been integrated into Barclays and accessing Barclays global distribution network"*

According to the Circular to Absa Shareholders (2005); Absa bought Barclays South African branch for R578 million.

Based on the need to become the pre-eminent bank in South Africa, all-round leadership was required where Barclays given the huge strengths in corporate and merchant banking was integrated into the business model of Absa Corporate and Merchant Bank.

Barclaycard exited its joint venture with one of Absa competitors and whilst its operations were restricted until 1 February 2007, Absa made a number of Barclaycard appointments in Absa Card in preparation for operations post the merger.

Absa Private Bank team was strengthened paving a way towards the building of pre-eminent South African bank.

Introduced endorsed branding in certain areas, so that Absa customers would increasingly realise the benefit of Absa having a global parent company.

Phase 1 of the transaction was the majority acquisition by Barclays in Absa, and Absa's purchase of Barclays South Africa.

Phase 2 was the Africa expansion which includes the integration of the Africa operations of the two banks, obviously subject to regulation and shareholder approval.

The Africa leg of the transaction would be done on an arms-length basis, so that it complies with international best practice in governance, particularly related to the protection of minority shareholders.

The Head of Absa Corporate Development stated that "Whilst global focus was important, first priority was local delivery as discussed in the strategic view, therefore sticking like glue to the goal of achieving business as usual results, never a one size fits all approach that works in practise as there are plenty of pockets of excellence to be exploited and quick wins need to be exploited early on”

As always the case the integration process post an acquisition is always the most difficult the Barclays and the Absa Executive teams stated that “A specialised integration team had to be formed where there is a separate team, responsible for driving synergies, driving equally hard, albeit with dedicated teams a parallel process ensuring that the integrating of Absa into Barclays is simultaneous with getting results”

The Head of Absa Corporate Development on deals of this nature stated that........... “*The challenges of doing a deal where the banking industry is on a first world footing although the environment in which we operate is still in development phase, in such an environment communication is critical, should be the best that is available and should happen as often as possible”*

Steve Booysen further said........... “*We often went back to our people to simply tell them that there was nothing new to tell them, through constant communication we kept our people relaxed and on board and this was done because we are in the services industry and our most valuable stakeholder is our people, Customers are the reason for our existence and their interest in the transaction had been straightforward, how is going to affect them. Customers want the best products, solutions and service and if a deal such as this impacts on delivery of services, you will lose customers”*

5.8.3 Integration of financial benefits from synergies

According to the Celebrating Five years of the Barclay’s deal report (2010) by the current Absa CEO Maria Ramos; Absa expected financial benefits of a total return of R1.4 billion within the first four years from the synergies of the transaction. In five months of the first reporting period after the acquisition Absa expected a return of R30 million in pre-tax synergies and the results showed a R67 million benefit.

There were both revenue and cost synergies:

On the revenue side, benefits across the wholesale, business and retail banking operations, and card divisions were realised. The improved credit rating gave a direct benefit to the balance sheet.

On the cost side, benefits would be realised based on the Barclay’s global purchasing power and its best practice methodologies.

5.9 Organisational Performance

Absa's shareholders were to participate in value uplift R1.4 billion of pre-tax synergies four years after completion Split 60% revenue uplift and 40% cost efficiencies. The Implementation costs of R1.8 billion over the first three years and further value uplift potential through the proposed integration of Barclays and Absa's African operations, proven track record in achieving targets. Celebrating Five years of the Barclay's deal report (2010)

The Absa Executive team further emphasised that.............. "*While competition in the South African financial services industry had always been intense, there were signs that the Barclays entry on the South African banking scene already lead to competitive pressures increasing even further"*

Absa introduced new brands like Virgin Money to the market, as part of a niche strategy.

In 2007 two years since the unlikely union of the then Afrikaans-orientated Absa and the British-based Barclays was finalised, at the time, it seemed like a marriage of chalk and cheese.

Though many predicted such cultural discordance would be a serious risk to the merger, it had been managed with remarkable success.

The deal became a case study of how to do bank mergers successfully, giving the giant acquirer the confidence to go after bigger fish like fellow multinational bank ABN Amro.

"The achievement of synergies has been faster than expected," said Credit Suisse Standard Securities banks analyst Ross Jenvey. "The deal has been a success, with the main deliverable being Absa Capital. If some value can be added to retail and Absa is able to buy Barclays Africa, the deal should be a major success.

The planned executions of the various stages of the merger were key determinants to the success of the acquisition. This was one of the primary reasons as to why the merger was able to yield positive results from the synergies in a short while post the acquisition.

Chapter 6: The acquisition of Investcom by MTN

Overview

The case used in response to the Propositions as stated in Chapter 3, regarding the competitive advantages that an Emerging Market Multinational Corporation, that is in the Telecommunications industry. This case is utilised because MTN has embarked on an internationalisation strategy using M&A into 21 countries even though that the market entry strategy into these countries has been through both Greenfields and Acquisitions.

6.1 Background on MTN

In 1994, MTN South Africa was awarded the second national digital GSM licence for cellular telecommunications in South Africa. MTN South Africa commenced its commercial operations as a provider of cellular and communications services in June 1994. Having established itself in South Africa, MTN Group has expanded its mobile and fixed-line telecommunications operations to nine other countries, namely Nigeria, Cameroon, Côte d'Ivoire, Uganda, Rwanda, Botswana, Swaziland, Zambia and the Republic of Congo. Circular to MTN GROUP Shareholders (2006)

MTN Group was incorporated on 23 November 1994 under the name Investment Facility Company Two Six Five (Proprietary) Limited. On 22 June 1995, it changed its name to M-Cell (Proprietary) Limited. M-Cell (Proprietary) Limited was subsequently converted into a public company with effect from 14 July 1995 and listed on the JSE in August 1995 under the name M-Cell Limited. Circular to MTN GROUP Shareholders (2006)

In 1998, MTN Group was awarded GSM licences to provide mobile telecommunications services in Swaziland, Uganda and Rwanda. In addition to the GSM licence awarded to MTN Group in Uganda, MTN Group has the right to operate a fixed line network, which includes fixed wireless terminals and broadband fibre technology. Circular to MTN GROUP Shareholders (2006)

MTN Group commenced operations in Cameroon during 2000, following the acquisition of the mobile operations of Camtel, a State-owned telecommunications operator. In August 2001, MTN Group commenced operations in Nigeria. At 31 December 2005, MTN Group had a subscriber base of approximately 8.4 million in Nigeria. Circular to MTN GROUP Shareholders (2006)

Prior to 2002, Johnnic Communications Limited was the majority shareholder of MTN Group. On 31 March 2002, Johnnic Communications Limited disposed of most of its shareholding in MTN Group, making Johnnic Holdings Limited the majority shareholder, as Johnnic Holdings Limited had acquired a further 21.1% of the equity in MTN Group resulting in an interest of approximately 36.5% as at 31 March 2002. Transnet Limited held approximately 24% of the equity in MTN Group as at 31 March 2002. Circular to MTN GROUP Shareholders (2006)

In October 2002, the Company changed its name from M-Cell Limited to MTN Group Limited.

In 20 June 2003 Johnnic Holdings Limited unbundled approximately 31.9% of its MTN Group shares to its shareholders. In the same 20 year, Newshelf 664 acquired approximately 18.7% of MTN Group shares from Transnet Limited. Whilst Newshelf 664 has since divested of 4.1% (under a scrip lending arrangement) of its MTN Group shareholding, it remains the single largest shareholder with a 14.6% interest in the Company as at the last practicable date. Circular to MTN GROUP Shareholders (2006)

During the period 1 April 2003 to 31 March 2004, the PIC also acquired 10.3% of the issued share capital of MTN Group and at the last practicable date, the PIC held a 14.3% interest in MTN Group.

In 2005, MTN Group acquired interests in Libertis Telecom S.A. in the Republic of Congo, IranCell Telecommunications Services Company (Joint Stock Company) in Iran, Mascom Wireless Botswana Limited in Botswana, Telecel Zambia Limited in Zambia and Loteny Telecom S.A. in Côte d'Ivoire.

MTN Group was one of the largest GSM operators in Africa covering a population of over 341 million people. It had over 23 million subscribers across the African continent where it provides cellular, satellite and internet access services to 10 African countries and plans to launch its operations in Iran in the third quarter of 2006.
Its close rival, fellow South African group Vodacom had more than 21 million subscribers, whilst a third Pan-African player, Celtel, majority-owned by Kuwait-based MTC, has around 9 million consolidated mobile users. Circular to MTN GROUP Shareholders (2006)

6.2 Background on Investcom

Investcom was incorporated in 1994 under the name Investcom Holding (Luxembourg) S.A., as a Société Anonyme domiciled in the Grand Duchy of Luxembourg. Investcom is the holding company of the group companies with its head office located in Beirut, Lebanon. In September 2005, Investcom changed its domicile from the Grand Duchy of Luxembourg to the Dubai International Financial Centre in the Emirate of Dubai in the United Arab Emirates. Circular to MTN GROUP Shareholders (2006)

Following the change of its domicile, Investcom's name was changed from Investcom Holding (Luxembourg) S.A. to Investcom LLC. In September 2005, Investcom entered into a deed of exchange with Al BashairTelecom, agreeing to acquire an additional 40% of the outstanding shares of Spacetel Yemen, increasing Investcom's overall stake to 82.8%. Investcom also agreed to acquire an additional 30% interest in BashairTelecom Co., its Sudanese subsidiary, increasing Investcom's total stake to 85%. Circular to MTN GROUP Shareholders (2006)

The acquisition of both these additional stakes was in consideration for the issue of Investcom shares to Al BashairTelecom and was completed on 27 April 2006. In October 2005, Investcom went public with a primary listing on the DIFX and a secondary listing on the LSE.

Investcom was an international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe. Investcom operates six GSM mobile telecommunications networks in Africa, being networks in Benin, Ghana, Guinea-Bissau, Guinea Republic, Liberia and Sudan. In the Middle East, Investcom operates mobile telecommunications networks in Syria and Yemen and in Europe; Investcom operates a GSM 3G mobile telecommunications network in Cyprus. In addition, Investcom has recently been granted a licence to operate a mobile telecommunication network in Afghanistan. Investcom also provides international carrier services, principally through Mediterranean Network SAM in Monaco, and telecommunication engineering and consulting services. Circular to MTN GROUP Shareholders (2006)

As at 31 December 2005, Investcom had a total of approximately 4.9 million subscribers. For the year ending 31 December 2005, Investcom had revenues of approximately US$903 million (R5.7 billion) compared to US633 million (R4.1 billion) for the prior 12-month period, representing a growth rate of 43%. Investcom reported EBITDA of US$396 million (R2.5 billion) for the year ended 31 December 2005 compared to US$279 million (R1.8 billion) for the prior 12-month period, which represents a growth rate of 42%. In line with its strong performance, Investcom reported profit after tax of approximately US$208 million (R1.3 billion) for the year ended 31 December 2005 compared with approximately US$165 million (R1.1 billion) reported for the prior 12-month period, representing a growth rate of 26%. Circular to MTN GROUP Shareholders (2006)

Investcom had a positive net cash position of approximately US$144 million (R0.9 billion) as at 31 December 2005 compared to net debt of approximately US$106 million (R0.6 billion) as at 31 December 2004.

Investcom, a leading international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe, had approximately 4.9 million mobile subscribers in Benin, Cyprus, Ghana, Guinea Bissau, Liberia, Sudan, Syria and Yemen at 31 December 2005. Circular to MTN GROUP Shareholders (2006)

6.3 Emerging Market Internationalisation

The driver for telecommunication companies to internationalise into emerging markets is driven by growth needs and revenue growth as voice revenue has declined in developed markets. Therefore according to Dunning (2000) MTN is strategic asset seeking.

MTN said the merger would create a group servicing 28.1 million subscribers in 21 countries. The South African giant's CEO, Phuthuma Nhleko, said that........ *the two companies have a shared vision to be the leader in developing markets and both have already shown progress individually in this regard'. If the deal goes through, the combined group may bid for Saudi Arabia's third mobile licence later this year.* Circular to MTN GROUP Shareholders (2006)

According to the current MTN Group Executive Mergers and Acquisitions........... "*The board of the MTN Group has always had a strategy objective that growth in the business would be through Emerging Markets as this created a platform for earnings diversification".*

He further states that............ "*Emerging Markets have low penetration barriers. In Emerging Markets data revenue is the cash cow and this is the focus of this industry"*

The MTN Group Limited ("MTN Group") and Investcom LLC ("Investcom") deal was aimed to create the pre-eminent mobile operator in the emerging markets of Africa and the Middle East. Circular to MTN GROUP Shareholders (2006)

6.4 Mergers and Acquisitions as mode of entry

According to the Circular to MTN GROUP Shareholders (2006); The Enlarged Group (through the Investcom acquisition) would create the clear leader in telecommunications in Africa and the Middle East, with existing operations in 19 countries and a new operation launching in Iran in the second half of 2006.

The MTN Group Board was confident that the Enlarged Group would:

Become a sound platform for growth based on:

– The expansion of the geographic footprint and access to attractive markets with, in most circumstances, strong market positioning or alternatively opportunities in new, unpenetrated markets;

– Increased and improved diversity of management capacity though Investcom's controlling shareholder and management playing an important part in broadening the experienced management base of MTN Group, particularly in the Middle East; and

– Regionalised hubs with sound pillars in Southern Africa, West and Central Africa, East Africa and the Middle East unlocking regional opportunities in products, services and other resources. In particular there is a contiguous footprint around Ghana and Nigeria in the west;

Be able to leverage synergy opportunities in the areas of:

– Capital expenditure, through group procurement

– leveraging product investment and research and development

– Traffic efficiencies, such as regional and international roaming

– Indirect costs, such as a single head office and scaling of marketing and branding costs and

– Best practice sharing on all aspects of the business;

– Enable diversification of the Enlarged Group, rebalancing earnings and cash flow which ultimately reduces the overall risk profile. The diversification does not, however, create an unmanageable group of companies as the operations are strategically well-positioned across the African continent and Middle East and across similar time zones.

6.5 Acquisition Target Identification

In the interviews conducted with the MTN Group executives it was stated that; For MTN the target has to be a number 1 or number 2 operators in a particular country, the deal has to make a difference in aligning to the MTN Group growth objectives in Emerging Market, ensuring that it assists MTN in becoming a leader in the telecommunications industry in Emerging Markets and the Middle East.

Secondly the acquisition and merger identification is done in a two-fold analysis process where the initial analysis is that of the dynamics of the country and secondary the due diligence on the entity that is targeted.

In the case of Investcom, Investcom had been the biggest operator in over 10 countries and licences in countries with potential strategic growth.

6.5.1 Identification of the Target Country

The determinants of whether the country is viable for business are its Gross Domestic Product Per Capita which needs to be high thus ensuring that there is enough potential spending power on the retail market which would subsequently mean greater spending power on telecommunications.

Penetration into the market needs to be low and the number of operators in these markets has proven to be very few. Population growth needs to be high so as to ensure future subscription growth

6.5.2 Identification of Investcom as the Target

The rationale for the Investcom offer was that, The Investcom Offer is in line with MTN Group's vision to be the leading provider of telecommunications in emerging markets. MTN Group is undertaking the Investcom Offer to enhance its growth profile in Africa and the Middle East, to gain further scale in emerging mobile markets, to strengthen its operational capabilities and to diversify its financial profile, thereby unlocking synergistic potential. Circular to MTN GROUP Shareholders (2006)

Investcom was an international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe. At the end of 2005, Investcom's mobile operations had approximately 4.9 million subscribers in Benin, Cyprus, Ghana, Guinea Bissau, Liberia, Sudan, Syria and Yemen. Investcom has recently been awarded GSM licences to build and operate mobile networks in Afghanistan and Guinea Republic, expanding its operations to ten countries and boosting its combined population under licence to approximately 147 million. Circular to MTN GROUP Shareholders (2006)

There were no overlapping operations between MTN Group and Investcom. On a combined basis, the Enlarged Group would operate mobile networks in 21 countries, covering a population under licence of approximately 488 million people and serving approximately 28 million subscribers (as at 31 December 2005). This operational footprint would also more comprehensively cover important regional hubs such as West and Central Africa with Nigeria, Ghana, Cameroon, Côte d'Ivoire, Benin, Congo Brazzaville, Liberia, Guinea Bissau and Guinea Republic and East Africa with Sudan, Uganda and Rwanda. Circular to MTN GROUP Shareholders (2006)

Furthermore, completion of the Investcom Offer would expand the Enlarged Group's presence in the Middle East through operations in Syria, Yemen and Afghanistan, and in the second half of the calendar year, Iran. Circular to MTN GROUP Shareholders (2006)

Given the attractive competitive position of MTN Group and Investcom in their various markets, the Investcom Offer would complement the Enlarged Groups' strategy to be the leading mobile operator across its footprint. (Circular to MTN Group Shareholders 12 June 2006)

Investcom CEO, Mr Azmi Mikati, added............. *"We believe this transaction represents the ideal platform for Investcom to realise its goal of being a leading emerging markets telecommunications enterprise. We strongly believe that the combined group has a very exciting future – one I am personally committed to. The proposed transaction offers our shareholders the opportunity to participate in the growth of the number one telecommunications group in the region, with a complementary geography and a scale of assets second to none."*

Analyst Meloy Horn of Merrill Lynch said ....*"Investcom, which is headquartered in Beirut, would give the group access to 10 new countries, including Afghanistan and Saudi Arabia in the Middle East and Sudan"*

........."Investcom was an attractive target due to the low cellphone penetration rates in the countries where it operates", Horn said in a Merrill Lynch report (2006)

6.6 Risk Management

In the Circular to MTN GROUP Shareholders (2006) it is stated that; The companies reached an agreement on a transaction through a recommended offer in which the MTN Group will offer to acquire the entire issued share capital of Investcom, which is listed in Dubai and London, for a total consideration of US$5.526 billion (R33.5 billion*).

The recommended offer, at US$3.85 per share (translating into US$19.25 per Global Depositary Share ("GDS")) will be an all cash offer, with shareholders also being given a cash and share alternative. This represents a 27% premium to the closing price of Investcom's GDSs on 28 April 2006.

MTN had offered USD3.83 per Investcom share and an alternative of USD2.08 in cash and 0.18 MTN shares per Investcom share. M1, the Singapore-based cellco which owns 70.6% of Investcom, has agreed to the cash and stock alternative, saying that it will not sell its MTN shares for 14 months.

MTN would borrow USD3.85 billion from Deutsche Bank's London branch to fund the cash portion of the acquisition. The offer is subject to regulatory clearances for Investcom's companies in Ghana, Sudan, Syria and Yemen; a formal offer is due by 23 May.

In foreign countries the running of the acquired entity is made to be run by the local individuals of that country. This strategy ensures that the business is well run given the experience that the locals have on the industry, the relationship they have with regulators and the country customers.

In the Telecommunications industry especially in Emerging Markets, where politics are mostly unstable and a lot of entities being run by the various state organs. The management of risk of this nature is very difficult to manage, given that competitors can damage competition in the market by reducing product prices thus undercutting the competition. This results in companies receiving reduced profits as was initially anticipitated and focused.

6.7 Experience and Knowledge

In the telecommunications industry in Emerging Markets or any other market, local knowledge of the market is critical and the experience of local partners in a country is the name of the game.

The MTN Group Board was confident that the Enlarged Group will:

- Increase and improve diversity of management capacity though Investcom's controlling shareholder and management playing an important part in broadening the experienced management base of MTN Group, particularly in the Middle East
- Regionalise hubs with sound pillars in Southern Africa, West and Central Africa, East Africa and the Middle East unlocking regional opportunities in products, services and other resources. In particular there is a contiguous footprint around Ghana and Nigeria in the west
- Leverage product investment and research and development
- Indirect costs, such as a single head office and scaling of marketing and branding costs and
- Best practice sharing on all aspects of the business

Therefore the Enlarged Group would create a clear leader in telecommunications in Africa and the Middle East, with existing operations in 19 countries and a new operation launching in Iran in the second half of 2006.

6. 8 Integration

As with the integration of leadership, the execution of strategy to realise shareholder value is dependent on the proper integration of operations so as to realise the intended synergies and economies of scale. The success of this is driven by the successful integration of leadership who will drive the production engines of the organisation.

"*The integration of Investcom's experienced personnel would also broaden the proven management capacity within the enlarged group, facilitate knowledge transfer between the two operations and enable the enlarged group to further develop its business in the Middle East"........* Says MTN Group Chief Executive Officer, Mr Phuthuma Nhleko.

Mr Phuthuma Nhleko further said................... *"We are delighted with this transaction which delivers the next stage in MTN Group's emerging markets growth strategy. The MTN Group and Investcom have a shared vision to be the leader in developing markets and both companies have already shown excellent progress individually in this regard. "This well-considered partnership entrenches our leadership in telecommunications in Africa and the Middle East and will optimise value for our shareholders. It also substantially enhances MTN's growth prospects, securing a number of important new markets for the MTN Group."*

Analyst Meloy Horn of Merrill Lynch said.......... "*The move would also strengthen MTN's management capacities in the Middle East, helping with its current roll out of a network in Iran. Economies of scale achieved by covering 21 countries should also benefit the bottom line"*

6.8.1 Integration of Operations

According to the Circular to MTN GROUP Shareholders (2006); The MTN Group shuffled its key management in its African subsidiaries. MTN Group President and CEO, Mr Phuthuma Nhleko, said.............. "*these appointments will go a long way towards helping MTN to achieve its vision of being the leading telecoms player in emerging markets" An appropriate degree of mobility of staff between our various operations facilitates increased learning's across the business and provides our staff with attractive and meaningful opportunities for growth within emerging markets. Over time, this should further bolster our ability to attract and retain the best skill and capability across our footprint,"* said Nhleko.

Mr. Themba Khumalo, the then current CEO of MTN Rwanda took over as the new CEO of MTN Uganda. Previously Khumalo was an executive at MTN South Africa before his appointment as CEO of MTN Swaziland.

Mr Khaled Mikkawi, the then former CEO of the MTN operation in Liberia, became the CEO of MTN Rwanda. Mikkawi was with Investcom for nine years before the company was acquired by MTN in 2006.

Mr Erik van Veen, the then former COO of MTN Uganda, became the new CEO of MTN Zambia.

In the West and Central Africa region (WECA), MTN Guinea Bissau CEO, Mr Frans Joubert, was appointed CEO of MTN's operation in Liberia. Mr Anthony Masozera, the then current CFO for MTN Rwanda, became the new CEO of MTN Guinea Bissau.

Mr Wim Vanhelleputte was appointed CEO of MTN Côte d'Ivoire. Vanhelleputte joined MTN from another mobile operator where he served as CEO. Circular to MTN GROUP Shareholders (2006)

6.9 Organisational Performance

In the Circular to MTN GROUP Shareholders (2007) it is stated that; The MTN Group recorded 61.4 million subscribers across its 21 operations as at 31 December 2007. This is an increase of 53% from 40.1 million subscribers as at the end of 2006.

The former Investcom operations recorded subscriber growth of 66% to 13.9 million, contributing 23% of the Group's total subscriber base. In the South and East Africa (SEA) region subscribers increased by 23% to 19.3 million. In the West and Central Africa (WECA) region subscribers rose by 43% to 28 million and the Middle East and North Africa (MENA) region recorded a phenomenal 186% increase to 14 million, driven by the very strong growth of MTN Irancell.

The MTN Group's revenue increased by 42% to R73.1 billion (US$9.48 billion) from R51.6 billion (US$6.7 billion) recorded at 31 December 2006. Revenue was driven mainly by significant subscriber growth.

MTN Group President and CEO, Mr Phuthuma Nhleko said............ "*I am pleased with yet another satisfactory year across all MTN Group operations. Most of our operations have significantly grown the subscriber base and revenues. This performance reflects the significant opportunities for growth in the Group's expanded footprint. "Going forward, we will continue to actively seek value enhancing expansion opportunities in emerging markets, invest heavily in infrastructure and ensure that the Group is well positioned to benefit from the rapidly converging technology market. We will also continue to drive efficiencies and engage with regulatory authorities in the various markets in which we operate."*

The similarities and diffences between the company responses on the execution of the merger variables are discussed in the following chapter. Particular attention is paid to the propositions and whether or not they are supported in the research.

Chapter 7: Results Discussion

7.1 Overview

The question of when using Mergers and Acquisitions as a mode of entry of; Are the differences in the execution of variables that drive successful of Mergers and Acquisitions in Emerging Markets when comparing EMMNC's to DMNC's is the introduction to this paper.?

In explaining this phenomenon research was done on two cases involving multinational corporations that have done mergers and acquisitions in emerging markets. The MNC's used in the case are from Developed and Emerging economies. The literature review discussed in Chapter 2 summarised the factors that are important in a successful Merger and Acquisition as if correctly done can create a competitive advantage for these MNC's. The propositions were developed to test the factors that determine a competitive advantage for MNC's involved in M&A in Emerging Markets.

The cases analysed accounted for the large variation to provide a set of empirical results which confirmed many propositions. The task undertaken in the sections below draw the threads of each of the previous chapters together in order to build a clear understanding of the differences is any in the execution of variables that determine successful M&A in emerging markets when comparing DMNC's or EMMNC's when using.

The overview of the results is provided overleaf in Figure 1 which provides a snapshot comparison of the two companies.

Figure 1 Comparison of case results

Proposition	Barclay's/Absa	MTN/Investcom
1. The Board and Shareholders of DMMNC's have greater risk appetite and tolerance for mergers and acquisitions in emerging markets because of the higher exchange rates in currency thus making the capital investment in emerging markets cheaper in their balance sheet as opposed to EMMNC's that have lower currencies when compared to the US Dollar as a trade currency thus making acquisitions more expensive in the organisations balance sheet.	The Barclays internationalisation strategy was driven by the fact that in the domestic market it had reached it maturity and shareholders demanded greater returns on their investments. Furthermore Barclays was accelerating its strategic priorities, which entailed developing its retail and commercial Banking activities in selected markets outside the UK' as well as accelerate growth of global product businesses.	The MTN Group Board was confident that the Enlarged Group will, Increase and improve diversity of management capacity, Regionalise hubs with sound pillars in Southern Africa, West and Central Africa. Leverage product investment and research and development. Indirect costs, such as a single head office and scaling of marketing and branding costs and Best practice sharing on all aspects of the business.
2. Organisations that have experience and knowledge in mergers and acquisitions stand a much better chance of making a success of this market entry strategy in emerging markets as they understand the dynamics involved in the various variables required to make it a success and quickly realise shareholder return on investment.	Barclays Africa is a leading international bank in the sub-Saharan region, where it has operated for nearly 100 years. Barclays Africa generated approximately R1.3 billion of pre-tax profits for the year ended 31 December 2004 and had total assets of approximately R44.4 billion, with 1 200 000 retail and business/wholesale customer accounts served by 6 200 employees through 230 branches.	Investcom was an international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe. At the end of 2005, Investcom's mobile operations had approximately 4.9 million subscribers in Benin, Cyprus, Ghana, Guinea Bissau, Liberia, Sudan, Syria and Yemen. Investcom has recently been awarded GSM licences to build and operate mobile networks in Afghanistan and Guinea Republic, expanding its operations to ten countries and boosting its combined population under licence to approximately 147 million.
3. In Emerging Markets the alignment of strategic expansion objectives between the acquirer and the target organisation makes it easier and quicker to realise shareholder return on investment (ROI) through leveraging of synergies.	Barclay's strategic objective of building its retail and commercial banking, investment banking and credit card presence in selected international markets. As one of South Africa's big four banks and the leading retail bank, Absa was an excellent partner for Barclays to expand its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa.	The Investcom Offer was in line with MTN Group's vision to be the leading provider of telecommunications in emerging markets. MTN Group was undertaking the Investcom Offer to enhance its growth profile in Africa and the Middle East, to gain further scale in emerging mobile markets, to strengthen its operational capabilities and to diversify its financial profile, thereby unlocking synergistic potential.
4. The method through which the target organisation is integrated into the acquirers business determines the time it takes to realise returns for shareholders post the merger or acquisition.	Both the Absa and Barclays Boards support the vision of creating the pre-eminent bank on the African continent and have agreed in principle, as soon as reasonably possible after the completion of the recommended Acquisition and subject to regulatory approval: • To integrate Barclays South Africa and other Barclays Africa businesses with Absa; and • To integrate, as appropriate, Absa's international businesses in London, Germany, Hong Kong and Singapore with Barclays.	The integration of Investcom's experienced personnel would also broaden the proven management capacity within the enlarged group, facilitate knowledge transfer between the two operations and enable the enlarged group to further develop its business in the Middle East.

7.2 Exploring the Propositions

This section focuses on evaluating the research propositions as presented. The results of the two case analyses have been combined for each proposition in order to allow for comparisons or overlaps of the findings.

7.2.1 Proposition 1

The Board and Shareholders of DMMNC's have greater risk appetite and tolerance for mergers and acquisitions in emerging markets because of the higher exchange rates in currency thus making the capital investment in emerging markets cheaper in their balance sheet as opposed to EMMNC's that have lower currencies when compared to the US Dollar as a trade currency thus making acquisitions more expensive in the organisations balance sheet.

The literature review suggested that; Risk is defined as a condition of uncertainty in which there may be a negative outcome (Hubbard, 2007). By contrast, uncertainty is defined as a condition in which a number of possibilities could result from a decision made (Hubbard, 2007). Many strategic business decisions are risky. For example, a green field investment, a joint venture or an acquisition are all potential paths to enter into new markets, but each carries different trade-offs resulting in higher or lower levels of risk. Business managers are continually balancing the opportunity inherent in a decision with the accompanying risk.

Income stream uncertainty is the traditional measurement used in research studies to approximate risk-taking by firms (Bromiley, 1991; Nickel & Rodriguez, 2002). Theoretically, firms that take few risks should have more stable, predictable income streams than those that take many.

Barclays and Absa Acquisition

Synergies and aligned strategic intent is always important to the success of a merger or acquisition and in the case of Barclays and Absa this was the case where:
Absa's strategic intent was to be:

- The leading financial services business in South Africa
- And ultimately, the pre-eminent bank on the African continent
- Absa's board defined a strategy to partner with a significant global player

From a Barclays point of view there was great basis for building the pre-eminent bank in sub-Saharan Africa, operations were complementary, there were only two countries both banks had operations – Zimbabwe and Tanzania.

Barclays had successfully acquired and integrated a number of businesses in the past, including in 2003 the GBP803 million acquisition of Banco Zaragozano, a leading Spanish retail and commercial bank.
Barclays Africa is a leading international bank in the sub-Saharan region, where it has operated for nearly 100 years.

The Barclays internationalisation strategy was driven by the fact that in the domestic market it had reached it maturity and shareholders demanded greater returns on their investments. Furthermore Barclays was accelerating its strategic priorities, which entailed developing its retail and commercial Banking activities in selected markets outside the UK' as well as accelerate growth of global product businesses.

Barclays views South Africa as an attractive market with good growth prospects and a sophisticated economic and financial services infrastructure. The Recommended Acquisition accelerates Barclay's strategic objective of building its retail and commercial banking, investment banking and credit card presence in selected international markets. As one of South Africa's big four banks and the leading retail bank, Absa was an excellent partner for Barclays to expand its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa.

Barclays committed R33 billion to the deal, the largest foreign direct investment in South African history at the time. They undertook to maintain the Absa listing on the JSE and meaningful free float. Furthermore a strong commitment to broad-based black economic empowerment (BEE) was emphasised. Banking and other financial services would be extended to the under-banked in South Africa and finally the bank would provide a leading exponent of Corporate Social Responsibility.

MTN and Investcom Acquisition

In the telecommunications industry in Emerging Markets or any other market local knowledge of the market is critical and the experience of local partners in a country is the name of the game in the M&A business.

The MTN Group Board was confident that the Enlarged Group will:

- Increase and improve diversity of management capacity though Investcom's controlling shareholder and management playing an important part in broadening the experienced management base of MTN Group, particularly in the Middle East
- Regionalise hubs with sound pillars in Southern Africa, West and Central Africa, East Africa and the Middle East unlocking regional opportunities in products, services and other resources. In particular there is a contiguous footprint around Ghana and Nigeria in the west
- Leverage product investment and research and development
- Indirect costs, such as a single head office and scaling of marketing and branding costs and
- Best practice sharing on all aspects of the business

The companies have reached agreement on a transaction through a recommended offer in which the MTN Group will offer to acquire the entire issued share capital of Investcom, which is listed in Dubai and London, for a total consideration of US$5.526 billion (R33.5 billion*).

Therefore the Enlarged Group would create a clear leader in telecommunications in Africa and the Middle East, with existing operations in 19 countries and a new operation launching in Iran in the second half of 2006.

Investcom was an international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe. At the end of 2005, Investcom's mobile operations had approximately 4.9 million subscribers in Benin, Cyprus, Ghana, Guinea Bissau, Liberia, Sudan, Syria and Yemen. Investcom has recently been awarded GSM licences to build and operate mobile networks in Afghanistan and Guinea Republic, expanding its operations to ten countries and boosting its combined population under licence to approximately 147 million.

MTN said the merger would create a group servicing 28.1 million subscribers in 21 countries. The South African giant's CEO, Phuthuma Nhleko, said that.......... "*the two companies have a shared vision* *to be the leader in developing markets and both have already shown progress individually in this regard'. If the deal goes through, the combined group may bid for Saudi Arabia's third mobile licence later this year.*

Currency plays a greater role in the transactions in emerging markets, given that the trade currency is the American Dollar MNC's who's currency is stronger than the dollar have greater risk appetite in emerging markets as they perceive these transactions to be cheaper and therefore are willing to invest more and wait longer to realise return on investments. The target entity however needs to make sense and have potential returns for shareholders while at the same time meeting the acquirer's strategic objectives.

7.2.2 Proposition 2

Organisations that have experience and knowledge in mergers and acquisitions stand a much better chance of making a success of this market entry strategy in emerging markets as they understand the dynamics involved in the various variables required to make it a success and quickly realise shareholder return on investment.

Emerging markets are well known for their challenging and volatile business environments due to institutional voids such as inadequate infrastructure, skills shortages, crime and/or corruption, insufficient legal protection, challenging distribution systems, poverty, etc. (Khanna & Palepu, 2006). Although there is little question that these institutional voids are a disadvantage to firms coming from emerging markets, Yui *et al* (2007) and Dawar and Frost (1997) found that firms develop certain core capabilities by getting around the institutional challenges within their home environment that may "travel well" to other tough emerging market environments.

Khanna and Palepu (2006) support this view by arguing that MNEs which have encountered and learned effective ways of working around "institutional voids" in their home markets, are more likely to be adaptable and creative when finding solutions to institutional constraints in other emerging market economies, giving them a distinct competitive advantage over MNEs from developed economies.
For example, Cuervo-Cazurra and Genc (2007) found that by learning to adapt, EMNEs can use these lessons to enter other emerging markets that developed market firms might consider too risky to do business with Aybar &Thirunavukkarasu, (2005).

Maranto-Vargas and Rangel (2007) and Andersen, Denrell and Bettis (2007) also found firms that are able to shift their business models in response to changing environments were most able to match their global competitors. Andersen (2009) argues that the most important determinant of firm performance is management's ability to align their strategy and firm operations to the prevailing environmental conditions.

Barclays and Absa Acquisition

Barclays Africa is a leading international bank in the sub-Saharan region, where it has operated for nearly 100 years.

Barclays Africa generated approximately R1.3 billion of pre-tax profits for the year ended 31 December 2004 and had total assets of approximately R44.4 billion, with 1 200 000 retail and business/wholesale customer accounts served by 6 200 employees through 230 branches.

In these markets, Barclays had a strong domestic franchise and offers a broad range of retail and corporate products and treasury activities.

MTN and Investcom Acquisition

The rationale for the Investcom offer was that, The Investcom Offer is in line with MTN Group's vision to be the leading provider of telecommunications in emerging markets. MTN Group is undertaking the Investcom Offer to enhance its growth profile in Africa and the Middle East, to gain further scale in emerging mobile markets, to strengthen its operational capabilities and to diversify its financial profile, thereby unlocking synergistic potential.

Investcom was an international provider of mobile telecommunications services with operations in Africa, the Middle East and Europe. At the end of 2005, Investcom's mobile operations had approximately 4.9 million subscribers in Benin, Cyprus, Ghana, Guinea Bissau, Liberia, Sudan, Syria and Yemen. Investcom has recently been awarded GSM licences to build and operate mobile networks in Afghanistan and Guinea Republic, expanding its operations to ten countries and boosting its combined population under licence to approximately 147 million.

As similarity shared by the two MNC is that there is no substitute for experience and knowledge. This stems from the fact that both acquirers identified organisations that had the experience in the spheres of the business where synergies were required and had been involved in mergers and acquisitions in one form of the other. This has helped for the acquirers to realise returns on investment for shareholders within a short space of time. Evident in this is the formation of Absa as a bank from the amalgamation of the other smaller South African banks as well the experience of Investcom in emerging markets as a leading telecommunications company.

7.2.3 Proposition 3

In Emerging Markets the alignment of strategic expansion objectives between the acquirer and the target organisation makes it easier and quicker to realise shareholder return on investment (ROI) through leveraging of synergies.

The international industrial organization (IO) approach suggests that the acquisition decision of foreign Transnational Corporation (MNC's) is positively influenced by the market structure of the domestic target. This means that acquisition entry in highly concentrated industries avoids the creation of new capacity, and by extension a price war between incumbents and the entrant (Caves and Mehra 1986), and reduces the possibility of retaliation by existing incumbents in the industry (e.g., Elango and Sambharya 2004).

Elango and Sambharya 2004, further points out that in a small open economy, foreign entry by acquisition has been observed to be more common in industries that are already concentrated. High market concentration and high barriers to entry in these industries together with the small size of the overall domestic market obstruct the entry of domestic buyers. These specific industry conditions, which are mainly the outcome of monopolistic FSAs, and large dissimilarities in specific ownership assets between domestic and foreign acquirers, may explain substantial differences between cross-border and national targets.

Fukao et al. 2005 suggests that market share is one of the most useful means used in assessing the structure of the market and a particularly desirable characteristic of a target firm.

Building on the fundamentals of the country analysis to include the strategic vision or direction of the firm is the key to maintaining the organisations strategic momentum. Organisations within certain industries engage in different kinds of MNC activity. From the literature Dunning.2000 puts forward four types of reasons as to why organisations go into different countries:

1. Market seeking
2. Resource seeking
3. Rationalised or efficiency seeking; and
4. Strategic asset seeking

Barclays and Absa Acquisition

The Barclays internationalisation strategy was driven by the fact that in the domestic market it had reached it maturity and shareholders demanded greater returns on their investments. Furthermore Barclays was accelerating its strategic priorities, which entailed developing its retail and commercial Banking activities in selected markets outside the UK' as well as accelerate growth of global product businesses.

Barclays views South Africa as an attractive market with good growth prospects and a sophisticated economic and financial services infrastructure. The Recommended Acquisition accelerates Barclay's strategic objective of building its retail and commercial banking, investment banking and credit card presence in selected international markets. As one of South Africa's big four banks and the leading retail bank, Absa was an excellent partner for Barclays to expand its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa.

Barclays committed R33 billion to the deal, the largest foreign direct investment in South African history at the time. They undertook to maintain the Absa listing on the JSE and meaningful free float. Furthermore a strong commitment to broad-based black economic empowerment (BEE) was emphasised. Banking and other financial services would be extended to the under-banked in South Africa and finally the bank would provide a leading exponent of Corporate Social Responsibility.

MTN and Investcom Acquisition

The rationale for the Investcom offer was that, The Investcom Offer was in line with MTN Group's vision to be the leading provider of telecommunications in emerging markets. MTN Group was undertaking the Investcom Offer to enhance its growth profile in Africa and the Middle East, to gain further scale in emerging mobile markets, to strengthen its operational capabilities and to diversify its financial profile, thereby unlocking synergistic potential.

The recommended offer, at US$3.85 per share (translating into US$19.25 per Global Depositary Share ("GDS")) will be an all cash offer, with shareholders also being given a cash and share alternative. This represents a 27% premium to the closing price of Investcom's GDSs on 28 April 2006.

The integration of Investcom's experienced personnel would also broaden the proven management capacity within the enlarged group, facilitate knowledge transfer between the two operations and enable the enlarged group to further develop its business in the Middle East

The companies have reached agreement on a transaction through a recommended offer in which the MTN Group will offer to acquire the entire issued share capital of Investcom, which is listed in Dubai and London, for a total consideration of US$5.526 billion (R33.5 billion*).

This proposition ties up to the proposition on the identification of the target organisation to be acquired, where due diligence is important. Both cases have proved that for shareholder value to be realised in a short space of time there has to be strategic alignment between the acquirer and the target, this will inform easy realisation of synergies. It is clear that both organisations are what Dunning (2000) refers to as "strategic asset seeking".

7.2.4 Proposition 4

The method through which the target organisation is integrated into the acquirers business determines the time it takes to realise returns for shareholders post the merger or acquisition.

Mergers and Acquisitions are a form of hybrid in which integration is the means by which such inter-firm coordination and system controls are achieved. As such, integration involves actions taken to secure the efficient and effective direction of the organisational activities and resources toward the accomplishment of some set of common organisational goals.

Haspenslagh & Farquhar, 1987 argues that the realisation of this synergistic potential requires that two important tasks be accomplished to achieve the appropriate degree of inter-firm coordination:

a) A strategic task
b) An organisational task

A strategic task can be defined as the successful sharing or exchange of the critical skills and resources that form the foundation of the value creation. The accomplishment of the strategic task requires, however that target-specific bases of those critical skills and resources be kept intact.

The organisational task, therefore, is the preservation of any unique characteristics of an acquired firm that are a source of key strategic capabilities.

Both strategic and organisational tasks have implications for integration activities. The strategic task requires that links be developed between the combining organisation's value activities and that the organisational context be appropriate to support those links

Buono & Bowditch. 1989, further argues that in order to understand integration design, the strategic intent of a merger or acquisition must first be understood as strategic intent has at its core the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organisations.

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Hambrick & Cannella, 1993, are of the view that mergers and acquisitions are situations in which relational difficulties are commonplace, reflecting the adjustment by the two organisations to new, and often hierarchically altered, roles vis a' vis each other. Furthermore, conflict frequently develops between the acquiring and acquired organisations over the new mandate and terms of reference as a result of the pre-acquisition or merger use of ambiguity to facilitate negotiations (Jemison & Sitkin, 1986), an acquirer's lack of understanding of the acquirer's activities and the latter's failure to internalize the acquirer's goals (Shanley, 1987)

Barclays and Absa Acquisition

Both the Absa and Barclays Boards support the vision of creating the pre-eminent bank on the African continent and have agreed in principle, as soon as reasonably possible after the completion of the recommended Acquisition and subject to regulatory approval:

- To integrate Barclays South Africa and other Barclays Africa businesses with Absa; and
- To integrate, as appropriate, Absa's international businesses in London, Germany, Hong Kong and Singapore with Barclays.

Absa would have one new Barclay's executive director, while the Sanlam and Remgro representative directors have been replaced by two new Barclay's non-executive directors.

The executive management was drawn from the existing Absa leadership team and selected Barclay's nominees.

Dr Danie Cronje the Absa Chairman became a member of the Barclays board. Dr Cronje said........... "*There have been a number of staff interchanges/transfers between our two groups and this form of implementation within the first year laid the foundation for future success".*

The enhancement of global reach enhanced the services that can be offered to customers. Absa's international operations have been integrated into Barclays_and accessing Barclays global distribution network.

Absa bought Barclays South African branch for R578 million.

Based on the need to become the pre-eminent bank in South Africa, all-round leadership was required where Barclays given the huge strengths in corporate and merchant banking would be integrated into the business model of Absa Corporate and Merchant Bank.

Barclaycard exited its joint venture with one of Absa competitors and whilst its operations were restricted until 1 February 2007, Absa made a number of Barclaycard appointments in Absa Card in preparation for operations post the merger.

Absa Private Bank team was strengthened paving a way towards the building of pre-eminent South African bank.

Introduced endorsed branding in certain areas, so that Absa customers will increasingly realise the benefit of Absa having a global parent company.

Phase 1 of the transaction was the majority acquisition by Barclays in Absa, and Absa's purchase of Barclays South Africa.

Phase 2 is the Africa expansion which includes the integration of the Africa operations of the two banks, obviously subject to regulation and shareholder approval.

The Africa leg of the transaction would be done on an arms-length basis, so that it complies with international best practice in governance, particularly related to the protection of minority shareholders.

MTN and Investcom Acquisition

The integration of Investcom's experienced personnel would also broaden the proven management capacity within the enlarged group, facilitate knowledge transfer between the two operations and enable the enlarged group to further develop its business in the Middle East.

Says MTN Group Chief Executive Officer, Mr Phuthuma Nhleko ...... "*We are delighted with this transaction which delivers the next stage in MTN Group's emerging markets growth strategy. The MTN Group and Investcom have a shared vision to be the leader in developing markets and both companies have already shown excellent progress individually in this regard. "This well-considered partnership entrenches our leadership in telecommunications in Africa and the Middle East and will optimise value for our shareholders. It also substantially enhances MTN's growth prospects, securing a number of important new markets for the MTN Group."*

Analyst Meloy Horn of Merrill Lynch said.......... "*The move would also strengthen MTN's management capacities in the Middle East, helping with its current roll out of a network in Iran. Economies of scale achieved by covering 21 countries should also benefit the bottom line"*

The MTN Group shuffled its key management in its African subsidiaries. MTN Group President and CEO, Mr Phuthuma Nhleko, said................ "*these appointments will go a long way towards helping MTN to achieve its vision of being the leading telecoms player in emerging markets" An appropriate degree of mobility of staff between our various operations facilitates increased learning's across the business and provides our staff with attractive and meaningful opportunities for growth within emerging markets. Over time, this should further bolster our ability to attract and retain the best skill and capability across our footprint,"* said Nhleko.

Mr. Themba Khumalo, the current CEO of MTN Rwanda took over as the new CEO of MTN Uganda. Previously Khumalo was an executive at MTN South Africa before his appointment as CEO of MTN Swaziland.

Mr Khaled Mikkawi, former CEO of the MTN operation in Liberia, became the CEO of MTN Rwanda. Mikkawi was with Investcom for nine years before the company was acquired by MTN in 2006.

Mr Erik van Veen, the COO of MTN Uganda, became the new CEO of MTN Zambia.

In the West and Central Africa region (WECA), MTN Guinea Bissau CEO, Mr Frans Joubert, was appointed CEO of MTN's operation in Liberia. Mr Anthony Masozera, the current CFO for MTN Rwanda, became the new CEO of MTN Guinea Bissau.

Mr Wim Vanhelleputte was appointed CEO of MTN Côte d'Ivoire. Vanhelleputte joined MTN from another mobile operator where he served as CEO.

The literature puts forth the view that the synergies to be realised from the acquisition must be identified prior to the acquisition taking place as that makes it easier for the integration process and to leverage each other's competencies. This view has been supported by both cases and the view has been that the biggest driver is the alignment in strategic intent between the acquirer and the target.

A snapshot of the outcomes of each of the propositions as a result of the research is provided in figure 2 below, along with brief suggestions for future research.

Figure 2 Proposition Outcomes

Proposition	Outcome	Future research thoughts
1. The Board and Shareholders of DMMNC's have greater risk appetite and tolerance for mergers and acquisitions in emerging markets because of the higher exchange rates in currency thus making the capital investment in emerging markets cheaper in their balance sheet as opposed to EMMNC's that have lower currencies when compared to the US Dollar as a trade currency thus making acquisitions more expensive in the organisations balance sheet.	Supported	Is there a stereotype around emerging markets particularly Africa from boards and shareholders of multinationals on the duration at which shareholder value can be realised and the competency levels required in those environments?
2. Organisations that have experience and knowledge in mergers and acquisitions stand a much better chance of making a success of this market entry strategy in emerging markets as they understand the dynamics involved in the various variables required to make it a success and quickly realise shareholder return on investment.	Supported	As a result of the proposition being supported research might require a comparison between organisations in the same industry. This can also help test if M&A create competitiveness in their respective industries within the economies they operate in or do they hinder the growth of host industries
3. In Emerging Markets the alignment of strategic expansion objectives between the acquirer and the target organisation makes it easier and quicker to realise shareholder return on investment (ROI) through leveraging of synergies.	Supported	As a result of the proposition being supported future research might be on the question of whether do acquisitions provide greater competitive advantages for the acquired organisations and do they create competitive industries
4. The method through which the target organisation is integrated into the acquirers business determines the time it takes to realise returns for shareholders post the merger or acquisition.	Supported	Future research might be in a quantitative form where comparisons in financial performance of organisations who have taken a phased integration approach and those that have taken big bang integration approach post the merger and acquisition.

Chapter 8: Conclusion

8.1 Overview

Organisations move into foreign markets for various reasons; these range from seeking strategic assets, resources and intellectual capabilities.

The research report has met its objectives of understanding if there are any differences in the execution of mergers and acquisition variables between EMMNC and DMMNC. All propositions were supported by the studied cases. In addition to this study areas for future study have come to light.

A discussion on the results of the study, the practical implication of these results and the areas for future study has been detailed below.

8.2 The Results

This study has proven that there is no difference in the execution of the variables that determine a success or failure of using M&A as a market entry strategy in Emerging Markets between EMMNC and DMMNC.The main differentiators are the ability of the organisations to understand the markets they want to operate in, the intended target and the strategies used to make the M&A a success.

The information presented by the cases is compelling that frequent acquirers consistently outperform infrequent acquirers as well as companies that do no deals at all. Having looked at the MTN case the experience was derived from the learning's in each countries M&A were done and that made them better each time and more competitive.

The support from the expansion strategy into emerging markets by the Board and Shareholders has been proven to be the most important as it determines the level of capital investment and the tolerance levels during the earlier years of the acquisition or deal negotiations.

Proposition two on the experience and knowledge has been supported by the results of the study where it has been proven that selecting the right target that is aligned in vision, values and strategy makes it easier to execute strategy and reduces the time it takes to realise shareholder value. What this means is that organisations need to correctly identify a target for an acquisition.

Most of the leaders and managers of the major corporate across the world have gone to more or less the same academic institutions and have ploughed their trades in foreign countries therefore the skill sets are similar and do not really give a competitive edge one over the other. The success of an M&A

deal in any economy is dependent on attitude of the individuals involved, relationships with the host country regulators and the commitment to the strategic direction of the organisation.

Acquisition is the most basic form of expansion and can be the simplest, if the acquired business is treated purely as a portfolio investment. However, acquisitions can also imply the integration of a foreign company with existing businesses, raising a host of complex legal, economic and cultural issues

From a knowledge and experience point of view one thing amongst the many that clearly comes out is that an organisation can gain a competitive advantage and substantially beat the odds if it gets the integration process right and makes it a core competency as that determines the type of leadership required and the strategy execution model to be employed.

Targeting a market, finding a potential candidate for acquisition, conducting due diligence and preparing the purchase can easily take more than a year to complete. Due diligence can take longer in Emerging Markets than in developed markets , because of differences in politics, regulations and knowledge of the respective markets and this puts even greater emphasis on the identification of the right target for an acquisition, one that synergies can be leveraged and networks built.

During the study of the cases great emphasis was placed on the importance of getting the integration process right. A clash of corporate cultures can make working together onerous even when complementarities exist on paper. Employees from Acquirer and the acquired company may have to learn new languages and business norms in order to work together effectively. This was emphasised in the importance of creating a common value system that becomes the pillar of the culture to be adhered to.

The diagram below depicts the important factors to be considered prior to an organisation embarking on an expansion strategy especially in Emerging Markets.

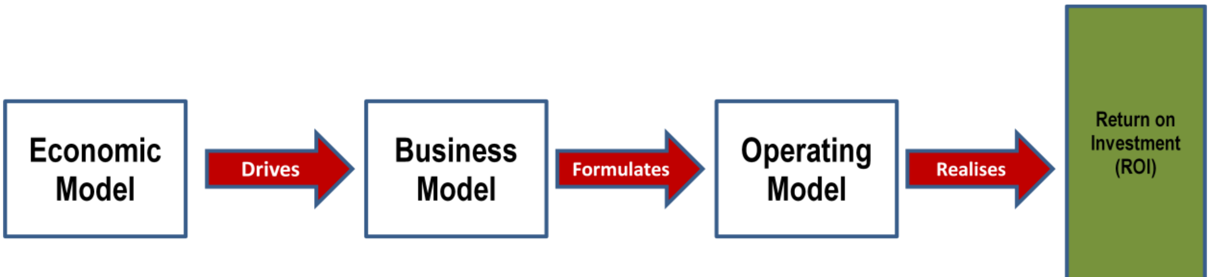


Figure 3: Factors for consideration in a successful M&A

Economic Model

The study has proven that to be competitive and successful in Mergers and Acquisitions in emerging markets, organisations need to be from competitive economies and must have a competitive edge in the markets they originate from, that gives them the expertise required in global competition and therefore stand a chance of having a competitive advantage over competitors from any market.

Political cohesion between the country of origin and the host country is of utmost importance as that lowers the entry barriers, manages the political risks with authorities and regulatory bodies who have the power to halt or suspend deals between MNC's.

It is important for the acquirer to understand the people, competitors, customers and the social issues of the host country prior to embarking on an M&A initiative. These facts will ensure that potential growth into the future is understood and that there is room for the introduction of new products in the future thus stimulating shareholder value.

Analysis of the economic environment becomes the basis for strategy formulation for the organisation and understanding of the capital investment required.

Business Model

Given the understanding of the host country economic model and the formulation of strategy based on the organisational objectives. The study has proved that the two aligned make it easier for the organisation to adjust and respond to the market conditions. I mergers and acquisition organisations have to realise and accept that the culture will change from that of the acquirers headquarters and this will be based on the leadership integration, the market, competitors and the customers, this justifies the importance of flexibility to adapt.

The clout of the leadership is paramount in the M&A business as it can make or break the risk appetite of the shareholders, risk tolerance and the size of capital to be invested in the venture.

Continuous communication to the board and shareholders is extremely important so as to keep them abreast of the developments in the process; this creates assurance to the customers, staff and market analysts of both the acquirer and the acquiring organisation.

Operating Model

The biggest challenge in organisations is the correct execution of strategy, customised appropriately to meet the demands of the market and customers. This is mainly caused by misalignment between the competencies available in the organisation and the tasks that need to be delivered. If this is not correctly done it can result in the loss of customers and the organisations competitive edge. Staff moral can also be hindered which can as well be a variable eroding shareholder value and potential return on investment (ROI).

Therefore during the merger and competency integration of the organisations, it is essential to align these competencies to the objectives of the merger and the strategic objectives to be realised, this in turn will provide faster turnaround times, new customer attraction and existing customer retention. Leveraging the synergies of the organisations brings about economies of scale which contribute to the building of a sustainable and competitive organisation.

Cohesiveness driven by common values and aligned objectives is important to be dealt with and communicated well. Silo mentalities and insecurities can easily erode shareholder value.

The high risks posed by Emerging Markets require organisations to plan longer time horizons for investments in those environments. Expansion into Emerging Markets has proven that it can be profitable even when the political or economic situation in a country is unstable as proven in the case of MTN. In these cases, however, the additional uncertainty may mean that investments need several more years to break even or even realise profits hence the support from the shareholders and the boards or organisations is important failure to do so will result in the failure of such expansions.

M&A evolves alongside changes in the business environment. MNCs in Sub-Saharan Africa will continue to adapt current strategies and adopt new ones in response to the region's dynamic environment therefore the understanding of these complexities is imperative to know and embrace.

8.3 Practical Implication

Get Buy-in from the Board and shareholders: The returns on investments can take a long time to be realised and therefore it is imperative to share a long time horizon with shareholders and investors so as to cement commitments and guarantee a return.

Seek out anchor target organisations early in the M&A expansion process: particularly organisations large enough to justify an acquisition and expansion into a particular country. The business case for expansion is straightforward if the target is reliable, experienced in the market and can make the acquisition in that market profitable

Locate based on ease of doing business as well as market size: It is essential to when using M&A as an expansion strategy that organisations target organisations that are already competitive in their respective economies. This approach puts organisations in a stronger position to move into the bigger market based on the infrastructure and skill already available.

Leverage local knowledge as well as operational capacity: Knowledge of local markets by the acquired target can help to reduce complications in business processes by sharing its connections, practices and experiences with the acquirer.

Be patient in understanding cultures and ways of operating: The creation of a solid courting period between the leadership of the organisations needs to take time. Many informal meetings may be necessary before any discussion of a merger or acquisition can begin. MNCs also need to be willing to walk away from potential acquisitions should the cultures and values be unproductive regardless of earlier investments.

Avoid being seen as a foreign interloper: It is important for the acquirer to not to be perceived as an interloper and therefore should leverage local resources and knowledge. This is a particular risk when bringing a new product to a host country abroad. Recruiting local personnel and demonstrating that the MNC is putting capital into the country, rather than pulling it out, can mitigate this risk.

Build team skills: Every emerging market holds different dynamics and therefore it is essential to leverage local skills yet at the same time it is imperative to give employees the challenge of establishing themselves as through this process they can bring out their entrepreneurial capacities.

Business as usual functions: During the integration process it is imperative for both organisations to ensure that the functions of the two operations are still efficiently being run, thus taking particular care to make customer needs a priority and make stakeholder communication a priority.

Once a successful M&A has been achieved it is essential for organisations to take the time to review the process and evaluate how well it worked and what they would do differently next time. This process will give a competitive advantage and be a catalyst in the next M&A.

8.4 Future Research Direction

Four main strategies have been identified in this study as core to the success of Mergers and Acquisitions, namely; 1) Acquiring businesses through identification of the country and target organisation, 2) Responding to economic conditions of the country and industry, 3) Creating intellectual property and 4) Leveraging on the benefits of a successful integration

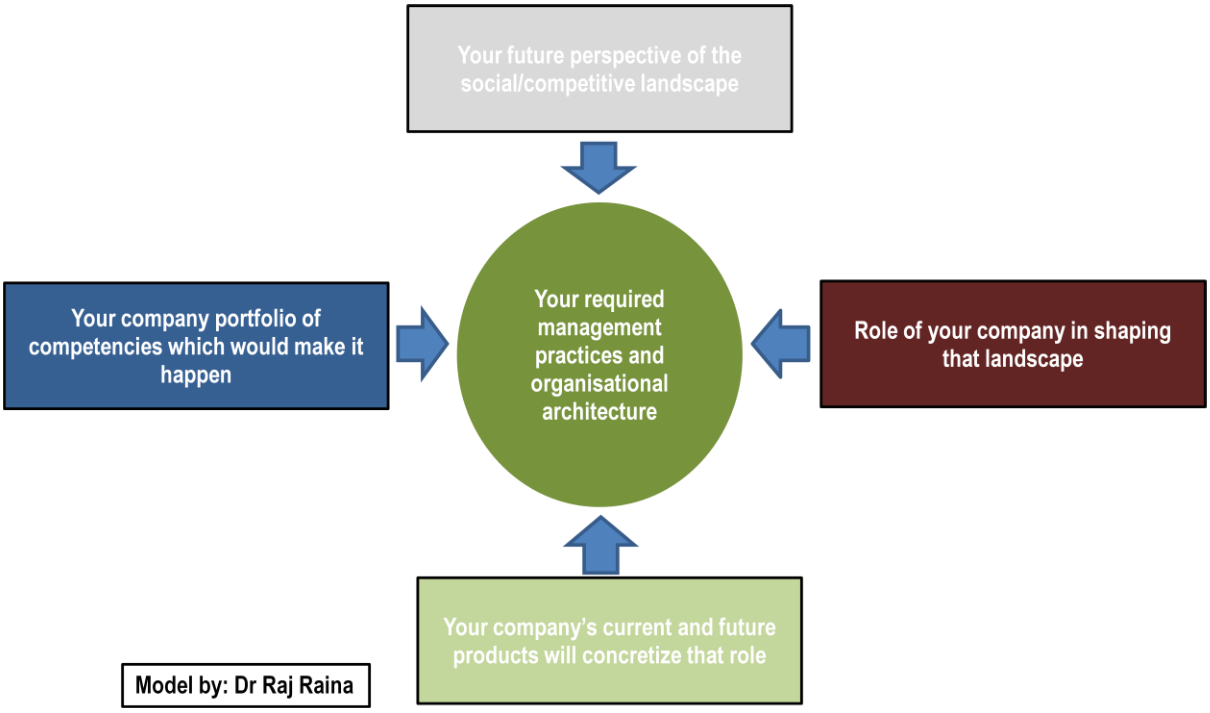
These are world-class strategies used globally, but adapted to the peculiarities of the Emerging Markets. When compared with strategies used by MNCs in developed markets, there are many similarities as well as notable differences. The dynamics of the economies are very different hence the notable differences however the strategic principles of successful M&A are the same.

In the cases studied, the goals have not only been to gain new business but to create an international profiles, as the South African telecommunications operator MTN did by purchasing Investcom and Barclays acquiring Absa, the objectives of both have been to become prominent players in emerging markets and with particular emphasis on Africa.

Questions that have been of interest during the study of mergers and acquisitions in emerging markets have been:

- Is there a difference in value if any that DMMNC bring to the emerging markets they operate in terms of social upliftment and the creation of self sustainable economies when compared to EMMNC?
- Do M&A create competitiveness in their respective industries within the economies they operate in or do they hinder the growth of host industries?
- Should acquisitions by foreign multinationals be regarded as a form of foreign direct investment in the host country, do they really add value to the respective economies through sustainable job creation and industry development?

From the study the salient aspects underpinning organisational growth and expansion success especially into new markets with different dynamics can be attributed to the factors as depicted the diagram below.



If these are the correct principles to be understood for future organisational growth; then what does it mean for shareholder value and the type of leadership required to drive new market expansions?

In closing the research has met its objectives of understanding the value brought by the proper application of the variables that determine the success of mergers and acquisitions in emerging markets. The application of these variables has proved to be successful with experience and clear identification of the target with which strategic objectives are aligned. The use of mergers and acquisitions as a mode of entry in emerging markets has given rise to a number of questions that need more research so as to further understand the benefits this type of foreign direct investment brings to the host country.

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ADDENDUM 1

OPEN ENDED INTERVIEW QUESTIONS

Interview Question 1
What have been the key drivers for the internationalisation strategy into emerging markets, and why the use of mergers and acquisitions as a mode of entry?
Interview Question 2
What criteria do you consider when selecting a target entity for an acquisition in an emerging market?
Interview Question 3
What factors or variables have been key in making a success of a merger or acquisition and why?
Interview Question 4
Research has proven that during a merger or an acquisition the toughest thing to get right is the integration of the acquired asset into the acquirers business, how have you managed to get it right if you did and if not what were the issues
Interview Question 5
Most organisations that have embarked on an internationalisation strategy in emerging markets have struggled to realise the acceptable shareholder value in those markets, despite this you have continued into these markets what were the drivers?
Interview Question 6
Finally what advice would you give to an emerging market multinational when internationalising into emerging markets using M&A as a market entry strategy**?**