Motives for mergers and acquisitions in the South African construction industry

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ABSTRACT

Merger and acquisition (M&A) strategies have been very popular for many years as a means to drive growth and strategic competitiveness. But the question is, what are the motives for M&A transactions? This research seeks to identify, analyse and understand the motivation for mergers and acquisitions in the South African construction industry for companies listed on the Johannesburg Stock Exchange, to offer insights to managers concerned with acquisitive growth strategies. The research adopted a qualitative research method, using a thematic content analysis of secondary data obtained from the Competition Tribunal, annual reports and news reports.

The findings were supported and rooted in the resource-based view theory of the firm, proving that construction companies undertake horizontal acquisitions to achieve synergies and efficiencies in production and for integration and complementarity of resources as well as a means to gain access to new markets. Vertical acquisitions are undertaken to expand or strengthen capacity, pursuit of growth, the attainment of market reach and market share as well as the desire to be more competitive in the market. Vertical acquisitions are also made for the purpose of improving synergies and efficiencies, as well as being able to offer or supply services along the entire value chain.

Keywords: Mergers and acquisitions, motives, vertical integration, horizontal integration

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DECLARATION

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

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1. INTRODUCTION TO RESEARCH PROBLEM

1.1. Introduction

The economic rationale put forward by AB InBev to the Competition Commission for its proposed merger with SABMiller in 2016 was “to create the first truly global beer company by combining the merger parties’ largely complementary geographic footprints” (Competition Commission South Africa, 2016). The boards of SABMiller recommended the transaction to its shareholders as it believed that the offer by AB InBev represented an attractive premium for shareholders and would secure delivery of SABMiller’s long-term value potential (Competition Commission South Africa, 2016).

In the 2011 retail industry merger between Walmart and Massmart, the former put forward the economic rationale “Walmart wants to enter emerging markets, specifically South Africa and sub-Saharan Africa, which account for approximately 20% of the consumer spending on the continent as a whole” (Competition Tribunal South Africa, 2011c). Walmart also cited South Africa’s sophisticated and stable economic, political and regulatory environment. Massmart on the other hand, cited Walmart’s collective skills and capabilities which would enable Massmart’s pre-merger expansion plans with more confidence. In addition the transaction will enable Massmart to gain access to Walmart’s procurement capabilities through buying agreement and various other services” (Competition Tribunal South Africa, 2011c).

There is a myriad of economic and strategic reasons why companies, across the industry spectrum, merge or acquire other companies. Merger and acquisition (M&A) strategies have been very popular for many years as a means of growth and strategic competitiveness. Figure 1-1 overleaf illustrates the number and the value of M&A transactions worldwide between 1985 and 2017, clearly showing the rapid rise of M&A transactions as a driver for growth and competitiveness in business.

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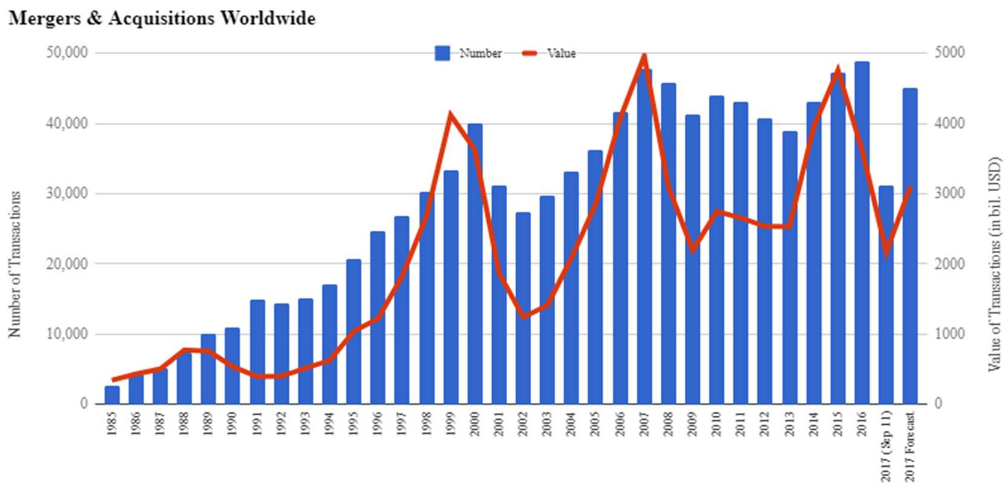
Figure 1-1: Number and value of merger and acquisition transactions worldwide, 1985-2017 (The Institute for Mergers Acquisitions and Alliances (IMAA), 2017)



M&A strategies are also popular in South Africa, with the country accounting for almost half of the transactions in Africa (Baker McKenzie, 2017). The Global Transactions Forecast report by Baker McKenzie shows that South Africa finalised 211 M&A deals in 2015, dropping to 115 deals in 2016 due to political and economic uncertainty, however the report predicts 190 M&A deals in 2017, rising to 274 in 2018, and 295 deals by 2019. South Africa is also included in the ten countries predicted to see the most growth in M&A in the next two years (Baker McKenzie, 2017).

Economic theory provides a number of explanations why companies merge or acquire other companies. This research will focus on the microeconomic market demand for control of corporate assets, firm level motives for mergers and acquisitions.

1.2. Research problem and purpose

Haleblian, Devers, McNamara, Carpenter, and Davison (2009) as well as Motis (2007) provide a number of reasons and rationale that have been proposed as motives for mergers and acquisitions. The consensus is that some of the reasons rely on the theory of industrial organisation and refer to enhancement of market power and efficiency gains, while others rely on managerial self-interest, regulations and firm characteristics (Motis, 2007), (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

This research seeks to identify, analyse and understand the motivation for mergers and acquisitions in the South African construction industry, for companies listed on the Johannesburg Stock Exchange (JSE).

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The purpose is therefore to utilise a rigorous content analysis approach to obtain deep insights into the actual motivation and reasons for M&A activity in the construction industry, relative to theoretical concepts found in the literature.

1.3. Research motivation

There has been a lot of interest and research of the motives for mergers and acquisitions internationally by economists and management scientists, but not in South Africa. This report is the first to research why companies acquire other companies. The literature offers an array of motives for mergers and acquisitions (M&A). A seminal paper by Trautwein (1990) presented various theories on motives for mergers, categorising into mergers that benefit acquiring companies, mergers than benefit managers (empire building theory), mergers as a process of outcome (process theory), and mergers as macroeconomic phenomena (disturbance theory). For mergers that benefit acquiring companies Trautwein (1990) found the reasons were efficiency theory (net gains through synergies), monopoly theory (wealth transfers from customers), raider theory (wealth transfers from target shareholders), and valuation theory (net gains through private information) (Trautwein, 1990).

Andrade, Mitchell, and Stafford (2001) found that research success on the issue of why mergers occur to be disjointed. They also credit economic theory for the many possible reasons for why mergers might occur, and they cite efficiency-related reasons which involve economies of scale, creation of market power, market discipline as well as self-serving attempts by acquirer management (Andrade, Mitchell, & Stafford, 2001). Kumar and Rajib (2007) studied a sample of M&A transactions between the period 1993 to 2004 in India. They put forward the notion that M&A transaction are driven by five forces, and these include regulation and political reform, technological change, fluctuations in financial markets, the role of leadership, and the tension between scale and focus (Kumar & Rajib, 2007).

Motis (2007) classified merger motives into two groups, shareholder gains and managerial gains. The first group includes drivers that increase the value of the merging firms, or future profits of the shareholders. Shareholders gains refer to the increase in the market value of the firm due to the merger. The second group includes drivers that go in the interest of the manager of the firm, to increase the acquiring company's manager's wealth (Motis, 2007). Managerial gains originate from the theory of the internal inefficiency of the company. Conflicts arises between the two groups since

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shareholders (principal) seek to maximize the company's value and managers (agents) seek to maximize their wages. It is the reason why managerial gains drivers are also known as the agency motive (Motis, 2007). In a similar vein, Gugler, Weichselbaumer, and Zulehner (2015) group the reasons as to why mergers occur into three categories. The first two categories presume that the managers of merging companies seek to maximize profits or shareholder wealth. Therefore under this assumption any M&A transaction must be expected to either increase the market power of the merging companies or reduce their costs. The third category posits other managerial goals than profits, such growth of the company, or quasi-irrational behaviour due to managers being overcome by hubris (Gugler et al., 2015).

Rani, Yadav, and Jain (2016) conducted an empirical survey of managers of Indian companies engaged in mergers and acquisitions to investigate their views on the motives of merging and acquiring other firms. The survey findings revealed that the primary motive of M&A's in India during the period 2003 to 2015 had been to take advantage of synergies, followed by operating economies, increasing market share as well as financial economies (Rani et al., 2016).

Haleblian, Devers, McNamara, Carpenter, and Davison (2009) undertook a review of the research in the field of M&A's and they state that initial research in this field concentrated mostly in the finance literature, paving the way for scholarly work in the specialised acquisition literature. The early scholars looked at whether M&A's added value to the acquiring company, by focusing largely on assessing the relationship between acquisition activity and firm performance through changes in shareholder value (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Their review also revealed that a significant amount of research focusing on antecedents of M&A's as scholars sought to uncover why firms acquired other firms. This research revealed a number of motives that appeared to trigger merger activity, but they decry the fact that much of the research has occurred in isolated pockets "leaving a unified theoretical view of why firms acquire markedly absent from this literature" (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). They conclude that "a few unifying theoretical threads capable of knitting together the unique, disciplinary-based perspectives on acquisitions have emerged, leaving an understanding of the acquisition process punctuated by critical gaps" (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

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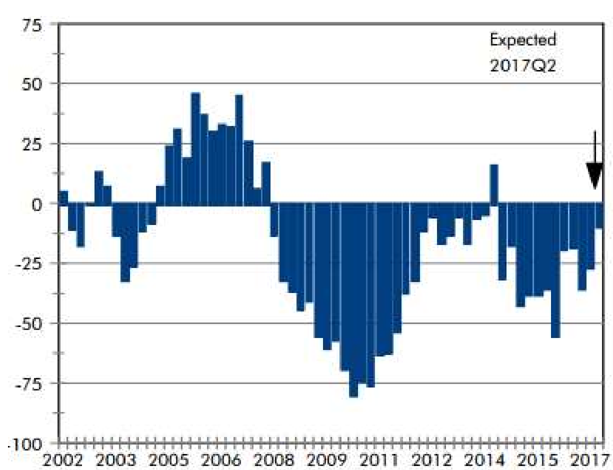
1.3.1. Why SA construction industry

The South African construction industry is considered a major job creator, with Statistics South Africa (StatsSA) reporting the industry to employ a total of 599 000 people, making up 6.2% of the South African labour force (Statistics South Africa, 2016). The industry is a major contributor to output in the South Africa economy, and it has an active M&A market. Therefore the importance of this industry cannot be understated. A comprehensive review of all M&A in the South African economy is beyond the scope of this report.

The industry was experiencing exceptional growth between the years 2000 to 2007, which is also a period which saw the emergence of M&A activity from the year 2004, peaking in 2008 and 2009. But for the past 10 years the industry has been in a steep decline, see the JSE construction and materials index chart shown in Figure 1-2 and the FNB growth in construction activity chart in Figure 1-3.

Figure 1-2: JSE Construction & Materials Index (Share Data Online, 2017)

Figure 1-3: Growth in construction activity (First National Bank, 2017)



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The growth period between the year 2000 and 2007 was spurred on by government capital expenditure as well as expenditure for the 2010 soccer world cup, and the decline from 2008 can be attributed to the global financial crisis and a gradual decrease in government's infrastructure spend. During the two periods, growth and decline, there was a significant number of M&A transactions in the construction industry, including later disposal of previously acquired companies.

The industry has over recent years been under pressure to transform and empower black owned companies, owing to the perception that all the major players in the industry are white-owned companies. State owned enterprises (SOEs), being the major drivers of capital expenditure in the industry, have started to apply pressure through changes and reviews to their procurement strategies. For example, the South African National Roads Agency (SANRAL), which account for approximately R20 billion in infrastructure expenditure recently published a draft transformation policy aimed at changing its procurement strategy. Some of the proposals included in the document include (SANRAL, 2017):

- the proposal that SANRAL does business only with companies that are at least 51% black-owned and with a minimum level 2 black empowerment rating, for capital projects.
- A maximum of 15 tenders a year will be issued to a single company, and companies will be required to make use of SANRAL approved contractors.
- Concessions to manage and operate toll roads will only be awarded to companies with 51% black ownership.
- SANRAL will limit the number of contracts awarded to established and dominant industry players.
- There will also be a focus on the "equitable allocation" of projects across Construction Industry Development Board grades, with grades 1 to 4 (emerging and/or smaller companies) to be accommodated.
- Emphasis will also be placed on creating space for black business in "rigid" materials and equipment supply chains (SANRAL, 2017).

Proposals such as these will undoubtedly apply pressure on construction industry players going forward, and there will in all likelihood be implications for company's growth strategies and future merger and acquisition transactions. With this in mind, it is anticipated that this research will offer invaluable insights into motives for M&A transactions and the implication for managers.

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1.4. Research aim

The aim of this research is to seek an understanding of the motives and rationale for mergers and acquisitions in the South African construction industry for the period between 2004 and 2017, and compare the motives to economic theories of mergers and acquisitions.

1.5. Research objectives

1. To identify the relevant methodologies to aid in analysing the motives and rationale for mergers and acquisitions in the South African construction industry.
2. Apply thematic content analysis to the selected sample data, to determine the motives and rationale provided for M&A's by JSE listed construction companies.
3. Evaluate the results, compare the findings of the research to economic theory and previous literature and conclude with the research findings.

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2. LITERATURE REVIEW

The aim of this chapter is to present a review of the academic literature on mergers and acquisitions and contextualise the research questions set out in this report. The first section begins with a definition of mergers and acquisitions, highlighting the interchangeability of the two terms. The second section presents the historical pattern of occurrence of merger activity globally, a pattern referred to as merger waves. The case for a South African merger wave is also presented. The third section presents the reasons and motives for mergers and acquisitions from different perspectives as found in the literature, and the outcome is that M&A motives are mainly categorised into two main groups, shareholder gains and managerial gains. The fourth section places focus on the shareholder gains related motives of efficiency, entry barriers and market power, exploring why these particular factors have found favour as the main motives put forward for M&A transactions. The objective is to explore these shareholder gains related motives and place them in the context of the South African Construction industry M&A transactions.

2.1. Defining mergers and acquisitions

Mergers and acquisitions have become a popular growth strategy for companies around the world. They enable rapid, but measured strategic growth of companies, thus creating competitiveness as well as value and return to shareholders.

Mergers and Acquisitions (M&A) is a general term that refers to the consolidation or joining of companies or assets. M&A can include a number of consolidation transactions such as mergers, acquisitions, and consolidations which involve two companies. Ireland, Hoskisson, and Hitt (2013) define a merger as “a strategy through which two firms agree to integrate their operations on relatively coequal basis, and they define an acquisition as “a strategy through which one firm buys a controlling, or 100 percent, interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio (Ireland et al., 2013). For the purpose of this research the two terms ‘mergers’ and ‘acquisitions’ will, as in the M&A literature, be used interchangeably.

A merger or acquisition transaction can either be horizontal, vertical or a conglomerate. The acquisition of a company competing in the same industry as the acquiring firm is a horizontal acquisition, and vertical acquisition refers to a firm acquiring a supplier or

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distributor of one or more of its goods or services (Ireland et al., 2013). A conglomerate merger occurs between companies that participate in unrelated activities.

2.2. Merger waves

In the M&A literature on why mergers occur there is consensus that merger activity occurs in cyclical patterns comprising of periods of intense merger activity followed by periods of fewer mergers, this cyclical nature of merger activity is commonly referred to as merger waves. Within a merger wave, it has been found that mergers strongly cluster by industry (Andrade et al., 2001).

Table 2-1: Summary of the six merger waves
(Yaghoubi, Yaghoubi, Locke, & Gibb, 2016)

Wave period	Main industries	Key attributes
2003-2007	Banking Media & telecom Utilities	Global scope Cross-border acquisitions Cash payments Friendly negotiations
1993-2000	Metal mining Media & telecom Banking Real estates Hotels	Related mergers Consolidation of major industries Response to deregulation Stock payments
1981-1989	Oil & gas Textiles Misc. manufacturing Non-depositary credit Food	Hostile Leveraged takeovers using bank debt and junk bonds Split up 1960s conglomerates Efficiency gains
1965-1969	Electricity Chemicals Combustion engines	Diversification
1916-1929	Food Steam engines Steel Railways	Move towards oligopolies
1897-1904	Steel production Hydraulic power Textiles	Merging to form monopolies Horizontal consolidation of production

Table 2-1 presents a summary of the six key merger waves which have occurred since the late 1890s, mainly in the USA. In their review of mergers and acquisitions, Yaghoubi, Yaghoubi, Locke, and Gibb (2016) summarise these merger waves as follows:

The first merger wave, which started in the late 1890s, was characterised by horizontal consolidation of industrial production. The wave followed radical changes in technology after the electrification of many large-scale industries such as oil refining and distribution, chemicals and other manufacturing (Yaghoubi et al., 2016).

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The second merger wave commenced in the late 1910s after a period of takeover markets, which was affected by the First World War. This wave of takeover activity ended at the start of the Great Depression in 1929 (Yaghoubi et al., 2016).

The third merger wave took place in the 1960s. The main attribute of this wave was diversification by firms that aimed to benefit from growth opportunities in new product markets and building large conglomerates. Acquisition activity, however, declined in early 1970s when the oil crisis led the global economy into recession and did not return for more than a decade (Yaghoubi et al., 2016).

The fourth takeover wave emerged in 1981. This wave was characterised as highly leveraged and hostile. Mergers were also in responses to changes in US anti-trust policies and the deregulations in the financial services industry along with innovations in the electronics industry (Yaghoubi et al., 2016).

The fifth wave of merger activity commenced in the early 1990s. It is suggested that mergers in the 1990s were responses to deregulation in major industries (Yaghoubi et al., 2016).

The sixth wave of takeovers started in 2003 after the economic downturn at the beginning of the twenty-first century. A unique characteristic of this recent wave was the large number of cross-border acquisitions. This last wave of takeover activity ended with the start of economic recession in 2008 (Yaghoubi et al., 2016).

Merger activity in South Africa

A literature search of the historical M&A activity in South Africa did not yield any meaningful results. However data available from the Competition Commission South Africa provides an indication of merger activity between the years 2002 and 2017.

The South African Competition Act no. 89 of 1998 requires merging companies to notify the Competition Commission of a merger before it is implemented if the intended merged entity meets the threshold criteria based on turnover and asset values. Competition Commission is to be notified on intermediate and large mergers, whilst small mergers may be notified voluntarily or upon the Commission's request. The Commission then investigates all notified mergers to determine whether the transaction is likely to lead to

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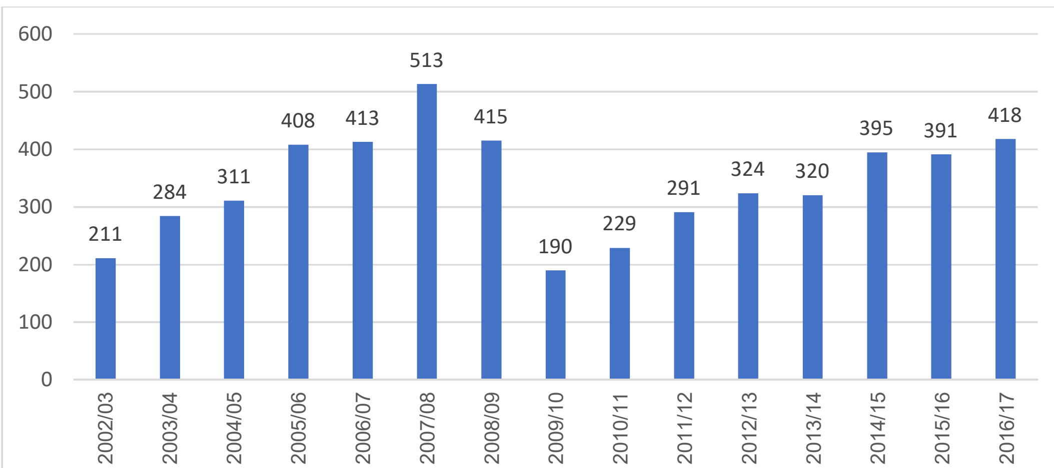
a substantial prevention or lessening of competition, or will have a negative effect on the public interest (Competition Commission South Africa, 2014).

Figure 2-1 shows the number of notified mergers to the Competition Commission South Africa between the years 2002 and 2017. The gradual increase in merger activity between 2002 and 2008 is fairly evident, followed by a sharp decline between 2009 and 2010, and another cycle of gradual growth between 2011 and 2017. It is interesting to note that this merger activity chart follows a similar trend to the growth in construction activity chart presented in Figure 1-3.

The pattern of M&A activity illustrated in Figure 2-1 may not necessarily be a typical example of a wave, with a periods of intense activity and a period of fewer mergers. What it does however show is that the South African business landscape has had a significant amount of M&A transactions over the past fourteen years.

Figure 2-1: Number of notified mergers to the Competition Commission South Africa between 2002 and 2017 for various industries (Competition Commission South Africa, 2017)



2.3. Reasons for mergers and acquisition

The research on why companies acquire proposes a number of reasons and motives, and these reasons are mostly placed in various categories. Ireland, Hoskisson, and Hitt (2013) offer the categories presented in Table 2-2 as reasons for mergers and acquisitions:

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Table 2-2: Reasons for acquisitions as put forward by Ireland, Hoskisson, and Hitt (2013)

Category	
Increased Market Power	Achievement of greater market power is a primary reason for acquisitions. Market power exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are lower than those of its competitors.
Overcoming entry barriers	A new entrant may find acquiring an established company to be more effective than entering the market as a competitor offering a good or service that is unfamiliar to current buyers.
Cost of new product development and increased speed to market	Compared with internal product development processes, acquisitions provide more predictable returns as well as faster market entry. Returns are more predictable because the performance of the acquired firm's products can be assessed prior to completing the acquisition.
Lower risk compared to developing new products	Managers may view acquisitions as less risky because the outcomes of an acquisition can be estimated more easily and accurately than the outcomes of an internal product development process,
Increased diversification	Based on experience and the insights resulting from it, firms typically find it easier to develop and introduce new products in markets currently served by the firm. In contrast, it is difficult for companies to develop products that differ from their current lines for markets in which they lack experience.
Reshaping the firm's competitive scope	To reduce the negative effect of an intense rivalry on their financial performance, firms may use acquisitions to lessen their dependence on one or more products or markets.
Learning and developing new capabilities	Acquiring a firm with skills and capabilities that differ from its own helps the acquiring firm to gain access to new knowledge and remain agile.

Haleblian, Devers, McNamara, Carpenter, and Davison (2009) carried out a literature review of M&A research, and their findings on acquisition antecedents are placed into four categories, which include value creation, managerial self-interest, environmental factors and firm characteristics. The four categories are summarised and presented in Table 2-3.

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Table 2-3: Reasons for acquisitions found in the literature review by Haleblian et al., (2009)

Category	
Value Creation	• **Market power** The idea that having fewer firms in an industry increases firm-level pricing power • **Efficiency** To reduce the cost side of value creation, acquisitions are motivated by the desire to increase efficiency. • **Resource redeployment** Managers view horizontal acquisitions as a means of facilitating redeployment of assets and competency transfers to generate economies of scope. • **Market discipline** Acquisitions may be value enhancing when they are used to discipline ineffective managers. Acquisitions can help protect shareholders from poor management.
Managerial Self-Interest (Value Destruction)	• **Compensation** Research has demonstrated important links between upper echelon compensation and ownership and acquisitive behaviour. Industries with higher CEO compensation generally exhibit greater acquisition activity. • **Managerial hubris** Managerial confidence and ego gratification may also increase acquisition behaviour. • **Target defence tactics** Target defence tactics are created to enhance managerial self-interest at the expense of shareholder wealth.
Environmental Factors	• **Environmental uncertainty and regulation** Research has shown that environmental uncertainty affects whether firms select to acquire or opt for other cooperative means. • **Imitation and resource dependence** Fringe actors initiated innovations that enabled them to execute mergers and, as these actors became increasingly successful, others, in turn, imitated their innovations. • **Network ties** Found that managers imitated the acquisition activities of firms to which they were tied through interlocking directorships.
Firm Characteristics	• **Acquisition experience** Recent experience was found to be positively related to subsequent acquisition likelihood, particularly when the experience was rewarding • **Firm strategy and position** Firms' strategic positions and intentions may have strong influences on acquisition behaviour

Motis (2007) carried out a literature review on M&A motives, grouping the merger rationale into two main groups, shareholder gains and managerial gains. Within shareholder gains, there are eight categories and three under managerial gains. The reasons are summarised in Table 2-4.

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Table 2-4: Reasons for acquisitions found in the literature review by Motis (2007).

Category		
Shareholder Gains	*Efficiency gains*	• **Economies of scale** Economies of scale arrive when the higher the production, the lower the marginal cost
		• **Economies of scope** Reached if the average cost of producing two products separately falls when the products are produced jointly
		• **Economies of vertical integration** Revealed when the sum of the cost of separately owned stages of production falls when a single firm performs the two stages of production.
	Synergy gains	• **Diffusion of know-how** If the merging firms have different but complementary technological capabilities, or simply know-how, by putting them together, they will achieve a technological progress.
		• **R&D** An acquiring firm may see a high R&D target as a faster means of investment on R&D than internally expending on it.
	Cost savings	• **Rationalization** Rationalization consists on a more optimal reallocation of production across the different lines of production of the merging firms
		• **Purchasing power** By increasing its size, a downstream firm may also increase its buyer power and obtain better prices from their upstream suppliers
		• **Creating internal capital markets** more efficient allocation of capital among divisions will save the higher costs of operation incurred when divisions remain separately owned.
	Financial cost savings	• **Taxes** Until reforms were passed, acquiring companies could normally escape immediate capital gains taxation. Such tax advantages had an important role in many merger decisions, but not critical enough to determine whether merger would or would not occur.
		• **Interest rates** The merger is said to be motivated by the possibility of borrowing more cheaply than with separate firms.
		• **Diversification** Modern portfolio theory states that the market value of a firm can be increased if it incurs in optimal risk by investing in many uncorrelated instruments.
	Enhance or strengthen market power	• **Through unilateral effects (horizontal mergers)** Defined as the threat that the merged firm, acting independently of any remaining rivals, finds profitable to raise its prices after the merger.
		• **Through coordinated effects (or collusion)** Refers to the case when the merger changes the mode of competition to a more tacit or explicit collusive behaviour that facilitates the increase in prices.
		• **To raise entry barriers** Post-merger higher entry barriers may facilitate the enhancement of market power.
		• **To spread portfolio**

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		A merged firm is able to gain market power because its buyers will prefer to be supplied of different inputs by the same firm rather that by different firms
		• **To obtain multimarket contact** A merger between diversified sellers can create market power in the individual market in which sellers compete
	Pre-emptive & defensive	Firms will acquire to prevent the target being acquired by a competitor.
	Discipline takeovers	• **Market for corporate control** A firm is undervalued due to inefficient management and that any bidder can detect this, acquire that firm and replace the manager
		• **Free-cash flow** Companies that hold high free-cash flows are frequent targets in hostile takeovers
Managerial Gains	*Empire building*	Managers' objective is to increase the size of the organization they want to lead
	Hubris	Managers incorrectly believe to be better able to manage other companies.
	Risk spreading	A manager seeks for a personal portfolio rather that an optimal portfolio for the firm.

Another literature review of M&A antecedents by Gupta (2012) presents three categories of motives, namely strategic, financial and organisational motives. Under strategic motives there are various reasons such as growth, market share, synergy, vertical integration, scale of operations and entry into new markets. Under financial motives there are tax benefit motives, shareholder value and reduction of costs, and managerial motives are defined under organisational motives.

Although the literature reviews in the various papers presents numerous reasons and categories of M&A motives, what is clear is that there is consensus that the motives can be categorised into gains for shareholders and gains for managers. For this research it has been decided to limit the focus to shareholder gains related motives, partly due to the type of data available for analysis as well as consideration for the shareholder value creation mandate for publicly listed companies.

The following sections will delve into shareholder gains related motives, focussing on efficiency and synergy gains, entry barriers as well as market power motives, to explore why these factors are put forward as motives for acquisitions.

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2.3.1. Efficiency and synergy gains

Farrell and Shapiro (2000) differentiate merger-specific claimed efficiencies as either synergy or non-synergy. They describe synergy efficiencies as those that require intimate integration of the merging party's unique, hard-to-trade assets that allow production output or cost configurations that would not be otherwise feasible. Non-synergy efficiencies on the other hand occur when each party's core assets continue to be used separately after the merger, therefore the merger involves only changes in business decisions such as pricing and output (Farrell & Shapiro, 2000). It is generally accepted that merger claimed efficiencies are measured through the achievement of economies of scale by the merged company.

A company achieves economies of scale when its average cost decreases as total input increases, that is, the higher the production, the lower the marginal cost. For a merged company, short-run economies of scale can be achieved by reallocation of outputs across various operational units, and in the long run, from coordination of the company's investments in capital (Motis, 2007). The attainment or pursuit of economies of scale has been found to be linked to the resource-based view of the firm, Harrison, Hitt, Hoskisson, & Ireland (2001) found that acquisitions of firms with similar resources may produce short-term value as economies of scale are easier to achieve, but significant long term value creating synergies can be achieved with different but complementary resources (Harrison et al., 2001)

Research literature suggests that efficiency gains motives are an incentive for horizontal acquisitions (Focarelli & Panetta, 2003). The question is, how does one measure efficiency gains after a merger? Many studies on the subject consider company performance, as measured by accounting profits, changes in cash flow or share prices of firms. Other studies have looked at evidence on changes to consumer prices, reduction of costs, operational improvements as measured by productivity gains and economies of scale realised following a merger.

Measuring Performance

Healy, Palepu, and Ruback (1990) examined the post-merger cash flow performance of acquiring and target firm, using accounting data collected from 50 large US mergers completed between 1979 and 1983. They found that the merged companies had increases in post-merger operating cash flow performance relative to their industry

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peers, and these increases were attributed to improvements in asset productivity (Healy, Palepu & Ruback, 1990).

Devos, Kadapakkam, and Krishnamurthy (2009) advance the idea that total synergies from a merger are made up of two components, operating synergies arising from changes in cash flow related to operations, and financial synergies from increased interest tax shield. They also state that if merger gains arise from scale economies, it would lead to operating synergies due to revenue increases or cost savings or cutback in investment. In their analysis of 264 large mergers between 1980 and 2004, they found merger synergies arise primarily from operating sources, making up 84% of the total synergy gains, with the remaining 16% attributed to tax benefits (Devos, Kadapakkam & Krishnamurthy, 2009).

In his study of 1430 mergers completed between 1981 and 2002, Li (2013) shows that acquiring companies increase the productivity of target companies through more efficient use of investments, labour and aggressive plant closures. The study also revealed a net improvement in the target company's total factory productivity, and the source of these efficiency gains was that the acquiring firm produced the same amount of output using less input. This indicated that increase in productivity were attributed to more efficient use of investments and labour (Li, 2013).

Contrary to the view of mergers resulting in efficiency gains, Moatti, Ren, Anand, and Dussauge (2015) investigated the performance outcomes of two growth modes, M&A and organic growth in a sample of 83 companies in the global retail sector over a period of 20 years. They found that the two growth modes affect bargaining power and operating efficiency, and that M&A increases bargaining power in the short term, but decreases operating efficiency, and this effect lasts over more extended time period. The reasons provided for this is that M&A based growth results in a collection of assets that may not be easily combined to achieve economies of scale, and that the location and nature of acquired assets often results in sub-optimal performance of pre-merger assets (Moatti, Ren, Anand, & Dussauge, 2015).

The majority of the literature studied indicates there to be efficiencies to be gained from M&A transactions, and that efficiency and synergy gains are what motivates a large number of transactions, particularly horizontal M&A transactions. No literature or studies were found on M&A efficiency gains in the construction industry. In the context of South Africa, the data available on M&A's shows that a significant number of transactions were

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horizontal in nature, and it will be interesting to explore and find out what the motives of the horizontal M&A in the construction industry are. The research question arising out this literature review would be, do construction companies adopt horizontal acquisitions for the purpose of enhancing efficiencies and synergies, and tying it to the resource-based view theory, are these acquisitions mainly of similar resources or complementary resources?

2.3.2. Entry into New Markets

Acquisitions versus internal development

Ireland et al. (2013) define barriers to entry as factors associated with the market that increase the expense and difficulty faced by new companies trying to enter that particular market. Companies wishing to enter markets with barriers to entry would typically have to spend substantial resources in order to enter and win over new customers in the new market, thus a new entrant may find acquiring an established company to be more effective than entering the market as a competitor. What has generally being found is that the higher the barriers to entry, the higher the probability that a company will acquire an existing firm in the market, and this provides the acquiring company with immediate access to markets (Ireland et al., 2013).

A study by Yip (1982) looked into the mode of entry when companies diversify into new markets, posing the question of whether the mode should be through internal development or acquisition of existing or established companies. The study looked into entry strategy and entry outcome of 59 entrants into 31 markets, and revealed that the choice between the two entry modes is explained by measures of barriers and relatedness. High entry barriers are more likely to be associated with acquisitions, and business/resources relatedness likely to be associated with direct entry or internal development (Yip, 1982).

Resource-based view

On the question of the mode of entry into new markets, the research literature proposes that the choice will depend largely on the relation between the resource base of the company, and the resource requirements of the new market, drawings from the resource-based view (RBV) of the firm. The theory predicts that a company is likely to use internal development to enter markets whose resource requirements are similar to the company’s existing set of resources and capabilities, and the company will employ

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acquisitions to enter markets whose requirements are different and far from its current resource base.

Lee and Lieberman (2010) argue that any process of expansion into new markets involves the leveraging of existing resources, as well as filling of resource gaps. The results of their study show that acquisitions within the company's primary capabilities are used to fill gaps in the company's product portfolio, and for entries outside of their capabilities acquisitions are used to redeploy excess capacity in exploring new growth paths. Their findings suggest M&A transactions serve two motives in a different way, depending on whether they are located within or outside the company's primary competencies/capabilities (Lee & Lieberman, 2010).

A similar study by Speckbacher, Neumann, and Hoffmann (2015) looking into the influence of resource relatedness on a company's decision between internal development and collaborative arrangement, found that relatedness between a company's existing business and the needs of the new market is a key determinant of the choice between internal development and collaboration with an external party (Speckbacher et al., 2015).

According to this resource-based view of the firm theory the analysis for this research should, based on the results of the numerous studies, reveal that construction companies in South Africa will mostly undertake horizontal acquisition of unrelated companies for the purpose of entering new business or product markets, and they will have other motives such as market power or efficiency gains in pursuing related acquisitions. The research question coming out of this would be, do construction companies adopt unrelated horizontal acquisitions for the purpose of gaining immediate access to new markets?

2.3.3. Enhancement of Market Power

Market power is said to exist when a company is able to sell its goods or service above competitive levels (Ireland et al., 2013), or the ability of a firm to set its price above marginal cost (Baye & Prince, 2013; Motta, 2004). Market power is typically derived from the size of the company, its resources and competitive advantage in the market, and the most common measure of market power used by competition authorities is market share (Motta, 2004).

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Resource-Based View

The derivation of market power through a company's resources and competitive advantage can also be viewed from the lens of the resource-based view of the firm theory. Harrison, Hitt, Hoskisson, and Ireland (2001) state that complementary resources allow companies to combine acquired resources with their own set of resources, to create a resource bundle that provides unique and difficult-to-imitate value, and this inimitable value is seen as the most important condition for a company to create its competitive advantage (Barney, 2001). Harrison, Hitt, Hoskisson, and Ireland (2001) observed that many of the M&A transactions in the 1990s focused on target firms with highly similar resources where the achievement of economies of scale was the main objective.

They found that these transactions did not produce substantial competitive advantage gains unless they produced substantial market power, and that the acquisitions that have complementary resources are most likely to produce competitive advantages over a longer period of time (Harrison et al., 2001). This view of resources complementarity as a means for a company to attain a competitive advantage was echoed by Das and Teng (2000), arguing that rationale for alliances is the value creation potential of firm resources that are pooled together (Das & Teng, 2000).

Market Share

Ghosh (2004) reports that a global survey of M&A deals, by KPMG, found that managers and board of directors consider the gaining of market share as the single most important reason for mergers and acquisitions. On the back of the results of this survey, his paper examines how market share as a business strategy benefits merging firms, the economic impact of the increase in market share following acquisitions and whether market share around acquisitions leads to improvements in long—run operating performance (Ghosh, 2004). Analysis a sample of more than 2000 acquisitions in the U.S. during the 1980s and 1990s, he finds a large increase in market share following acquisitions, reporting market share of merging firms increases from 2.77% to 4.39% following acquisitions. Proving that acquisitions tend to have a greater impact on market shares of merging firms. The paper also finds a correlation between long-run operating performance and market share, and this was mainly a result of greater asset efficiency (Ghosh, 2004).

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Contrary to the studies which find an increase in market share after a merger, Mueller (2004) studied the effect on a sample of 209 acquired companies and compared their market shares with those of non-acquired companies. He found that horizontal mergers exhibited market share losses relative to non-merging companies and that bigger companies had smaller losses, attributing this to potential increases in the degree of cooperation in horizontal mergers (Mueller, 2004). Mueller (2004) further quotes two additional studies in the 1990s, and two studies in the 1980s which also found declines in market shares following horizontal mergers.

Röller, Stennek, and Verboven (2000) made an observation that when a merger is driven by market power, the merged company will increase its price, and lower its output. This initial change will have an effect of increasing residual demand for the competitors. In response to the demand increase, the competitors will increase both their prices and their output. They predict that market share of the merged company will drop if the merger is driven by market power, and in comparison, the merged company may increase their market share if the merger generates enough variable cost synergies (Röller et al., 2000). The essence of what they are saying is, mergers that increase the price levels will reduce the company's market share, and the inverse is just as true. This relationship was observed by Miller and Weinberg (2016) in the U.S. brewing industry merger between Miller and Coors, where they noted that the prices of Miller Coors and their closest competitor ABI were stable an on a small down trend for a seven year period preceding the merger. After the merger there was an abrupt increase of prices in 2008, trending upwards until the end of 2011 (Miller & Weinberg, 2016).

There appears to be mixed outcomes on the impact of mergers and acquisitions on market share. On the one hand there are studies that show an increase in market power when measured by efficiency, and on the other a decrease in market power when measured by market share, and the research suggests the decrease in market share is mostly observed on horizontal mergers. Which beggars the question, is market power attained through vertical acquisitions?

Vertical Integration

Companies employ the strategy of vertical acquisitions in order to create specific investment between stages of the value chain, to be able to better exploit their internal pool of knowledge and resources, and to guarantee quality of inputs and services.

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Stuckey and White (1993) put forward four reasons why companies should vertically integrate, two of which relate to market power. They state that a company should "integrate vertically when companies in adjacent stages of the industry chain have more market power than companies in your stage", and that "integration would create or exploit market power by raising barriers to entry or allowing price discrimination across customer segments" (Stuckey & White, 1993). They argue that when most companies in an industry are vertically integrated it creates very high barriers to entry for non-integrated players to enter, thus maintaining market power for these integrated companies. Price discrimination is also practiced as forward integration into selected customer segments can allow a company to benefit from price discrimination (Stuckey & White, 1993). Chen, Xu, and Zou (2017) found that vertical mergers always lead to a decrease in the final product price leaving the consumers better off, they also found that integrated companies always performed better when they coexist with unintegrated companies.

This apparent trend of prices decreasing post a vertical merger contradicts the definition of market power, which earlier was stated as a company's ability to sell its goods or services above competitive levels. The decrease in prices seems to only enhance the company's competitive advantage by offering lower prices, however this gain can only be short term as the lowering of prices will inevitably cause competitors to their lower prices. Chen (2001) posits that vertical integration creates multimarket interaction between the integrated company and its downstream competitors. The merged company will recognize that its lower prices in the downstream market can affect its profits in the upstream market, in a case when it supplies inputs to its downstream rivals. This in turn affects a rival's incentive in selecting its input supplier, making it a strategic instead of a passive buyer in the input market (Chen, 2001). Díez-Vial (2007) came to the conclusion that companies do not vertically integrate to extend market power, but instead they integrate to influence industry structure by preserving their market share, invest in specific assets and resources, to be able to adapt to changes in transactions and finally, to exploit their capabilities internally (Díez-Vial, 2007).

The mergers and acquisitions literature on market power appears to be fairly disjointed with many opposing views on what the impact of M&As on market power is. Some researchers have found that M&As increase market share, but this has been found to be not applicable to horizontal mergers, however the evidence on vertical mergers is not so strong. It seems vertical mergers are undertaken for the purpose of maintaining market share and to have general control of input and output prices. The other factor to consider

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is that the market power motive of M&As will be subject to intense scrutiny by competition authorities, therefore companies will not boldly pronounce market power as the motivating rationale for mergers and acquisitions. The research questions that come out of this literature review are, do construction companies adopt vertical acquisitions for the purpose of gaining market power, or for the purpose of improving synergies and efficiencies along their value chains?

2.4. Summary

This sections presented a definition of mergers and acquisitions, offered a description of the historical pattern of occurrence of merger activity globally, a pattern referred to as merger waves. The case for a South African merger wave was also put forward. The reasons and motives for mergers and acquisitions from different perspectives as found in the literature was presented, with the outcome that M&A motives are mainly categorised into two main groups, shareholder gains and managerial gains. Focus was then placed on the shareholder gains related motives of efficiency, entry barriers and market power, exploring why these particular factors have found favour as the main motives put forward for M&A transactions. The following section presented the research questions emanating from the literature review.

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3. RESEARCH QUESTIONS

This research aims to answer four research questions, each derived from the literature review in the preceding Chapter 2.

3.1. Research Questions

3.1.1. Research Question 1

Do construction companies adopt horizontal acquisitions to enhance efficiencies and synergies?

As discussed in the literature review, the majority of the literature studied indicates there to be efficiencies to be gained from M&A transactions, and that efficiency and synergy gains are what motivates a large number of transactions, particularly horizontal M&A transactions. In the context of the South Africa construction industry, the data available on M&A's shows that a significant number of transactions were horizontal in nature. Therefore the aim of research question 1 is to identify the motives behind horizontal integration acquisitions.

3.1.2. Research Question 2

Do construction companies adopt unrelated horizontal acquisitions to gain immediate access to new markets?

According to the resource-based view of the firm theory, construction companies in South Africa will mostly undertake horizontal acquisition of unrelated companies for the purpose of entering new business or product markets, and they will have other motives such as market power or efficiency gains in pursuing related acquisitions.

3.1.3. Research Question 3

Do construction companies adopt vertical acquisitions to gain market power?

3.1.4. Research Question 4

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Do construction companies adopt vertical acquisitions to improve synergies and efficiencies along their value chains?

The mergers and acquisitions literature on market power came across as disjointed with many opposing views on what the impact of M&As on market power is. The aim of these two research questions is to explore the motives and reasons for vertical integration acquisitions. Some researchers have found that M&As increase market share, but this has been found to be not applicable to horizontal mergers, however the evidence on vertical mergers is not so strong. The literature appears to suggest vertical mergers are undertaken for the purpose of maintaining market share or to have general control of input and output prices through improved synergies and efficiencies.

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4. RESEARCH METHODOLOGY

4.1. Introduction

This chapter discusses the chosen research methodology for the purpose of this study. The literature review in chapter two provided the basis for the research problem, research questions and established a need for this study. This study adopted a qualitative and exploratory research approach, which informed the research method, design, sampling and data analysis.

4.2. Research Methodology and Design

The purpose of this research was to identify, analyse and understand the motivation for mergers and acquisitions in the South African construction industry. Cooper and Schindler (2014) as well as Saunders, Lewis, and Thornhill (2009) describe exploratory research as a means of finding out what is happening in order to seek new insights, particularly useful if one wishes to clarify an understanding of a problem. The research method adopted for this study was qualitative research, to allow the researcher to gain a deeper insight into the complexity of the research problem, Zikmund, Babin, Carr, and Griffin (2013) state that qualitative business research addresses business objectives through the use of techniques that do not require or depend on numerical measurements and enables the researcher to provide elaborate interpretations of phenomenon (Zikmund, Babin, Carr & Griffin, 2013). The research philosophy can be described as critical realism as the research will seek to study what is immediately apparent in relation to the motives and rationale for mergers and acquisitions, but also "what lies behind what is immediately apparent" (Saunders & Lewis, 2012).

A longitudinal time horizon was be adopted for the analysis in order to study the acquisition motives over a period of time. In terms of the time horizon, it was decided to analyse the data from the year 2004 when merger activity in the construction industry started to happen. The period between the year 2004 and 2008 saw a growth phase in the industry, and this presented an opportunity to analyse the motives during the growth phase as well as the industry decline phase after the year 2010.

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4.3. Population

Wegner (2016) defines a population as the "collection of all possible data values that exist for the random variable under study" (Wegner, 2016). In the case of this study the random variable would be merger and acquisition transactions in the South African construction industry. Therefore the identified population for this study will be all construction companies in South Africa, which have since the year 2004 been the subject of an acquisition or a merger. This includes all listed and non-listed companies, and all transactions deemed as small, intermediate and large in size, according to the Competition Commission South Africa categories of transactions.

4.4. Sampling Method and Size

The sampling method most appropriate for this research study is non-probability sampling, as it is considered difficult to obtain a list of the total population. The non-probability sampling technique to be adopted will be purposive sampling. Purposive sampling enables the use of judgement to select cases that will best enable the researcher to answer the research question (Saunders, Lewis, & Thornhill, 2009).

The South African Competition Act no. 89 of 1998 requires merging companies to notify the Competition Commission of a merger before it is implemented if the intended merged entity meets the threshold criteria based on turnover and asset values. The Commission classifies mergers and acquisitions into three categories; small, intermediate and large based on the combined turnover or asset value of the merged entity as well as the turnover or asset value of the target firm. The merger thresholds are shown in Table 4-1:

Table 4-1: Merger thresholds as at 1 October 2017 (Competition Commission South Africa, 2017)

Thresholds	**Combined Turnover/Asset Value**	**Target Turnover/Asset Value**
Large	Equal or exceeds R6.6 billion	Equal or exceeds R190 million
Intermediate	Equal or exceeds R600 million	Equal or exceeds R100 million
Small	Less than R600 million	Less than R100 million

The Competition Commission must be notified on intermediate and large mergers, whilst small mergers may be notified voluntarily or upon the Commission's request. The Commission can investigate and adjudicate on small and intermediate mergers, but in

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the case of large mergers it can only investigate and make a recommendation to the Competition Tribunal South Africa. The Tribunal then publishes the record of decision (RoD) for each merger transaction, but for large mergers only. The published RoD contains the rationale and reasons for the merger, provided by the acquirer and the target company.

According to the Competition Commission merger activity update, there has been approximately 79 mergers and acquisition cases involving South African construction companies between 2004 and 2017, and approximately 60 of these cases involved JSE listed companies. It was therefore decided the sample for the study will be all mergers and acquisitions involving JSE listed construction companies between 2004 and 2017.

There are a number of construction companies on the JSE, however the sample was limited to the listed companies that were involved in M&A transactions from 2004. The selected companies are as follows:

- Aveng Africa Limited
- Basil Read
- Group Five Construction (Pty) Ltd
- Murray & Roberts Limited
- Raubex Group Limited
- Stefanutti Stocks (Pty) Ltd
- Wilson Bailey Holmes-Ovcon Limited

4.5. Unit of Analysis

For this research the unit of analysis will be the rationale and reasons provided for mergers and acquisitions transactions involving JSE listed construction companies.

4.6. Data Collection

The secondary data for this research was obtained from multiple sources. The primary source was The Competition Tribunal, which publishes the RoD for large mergers, and this data is freely available on the Tribunal website. The RoD contains the reasons and rationale provided by the acquiring company as well as the target company. The Tribunal website has data dating back to 1 January 1999. The Tribunal also publishes the reasons for some of the intermediate mergers, but not all. Therefore it was decided to supplement

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this data with information contained in the annual reports of the JSE listed construction companies, as well as internet news reports on the particular transactions. This type of data is described as documentary secondary written material data (Saunders et al., 2009).

The collection of data began by downloading the merger and acquisition activity update from the Competition Commission website, this data was listed according to the Competition Commission's financial year which runs from April to March of the following year, the data was in the form of Microsoft Excel spreadsheets for each of the financial years under consideration. Each of the yearly spreadsheet contained all the Commission notified mergers and acquisitions, for all industries.

The next step involved an analysis of each of the fourteen spreadsheets, going through each and every transaction, highlighting all the transactions that involved the chosen JSE construction companies. All the other industry transactions not highlighted were deleted from the spreadsheets in order to remain with only construction related transactions.

The next step entailed the collection of the records of decisions from the Competition Tribunal website for large mergers. The Commission and the Tribunal use different case (or) reference number for each transaction, thus the collecting of this data involved the painstaking process of sifting through each and every large merger, for all industries, and identifying construction related transactions involving the chosen companies. The record of decisions, in the form of Adobe PDF files, were then downloaded.

The list of transactions was categorised according to each company, by each year, and the next step involved downloading the annual report for each company for each of the years where they were involved in M&A transactions. To collect the data, each of the annual reports was analysed using the word find function, searching for words that included "acquisition(s)", "merger(s)" as well as the names of the acquired companies. The relevant data with reasons and motives for the transactions was then copied into a word document for further analysis.

The final step in the data collection process included a search of each of the identified transactions on the internet using Google, looking for news reports and any relevant information pertaining to reasons and motives for the transaction. This information was also copied into a word document for further analysis.

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4.7. Data Analysis

The primary objective of the data analysis was to find common themes and insights around the motives and reasons for vertical and horizontal M&A transactions. The data collected was summarised per transaction in each year, and the summary of each transactions included the Tribunal case number, the name of the primary acquiring company, the primary target company, the initial date on which the transaction was files and when it was approved, the category of the transaction (large, intermediate or small) as well as the Tribunal approval status.

For each transaction, the summaries also captured information about the companies and their primary activities. From these primary activities, a description of the type of an acquisition, horizontal, vertical or a combination of both, was attached based on the researcher's knowledge of the industry. The transaction rationale and reasons from the Tribunal records of decisions, where available, was also attached as well as the data from the annual reports and internet news and information. The source of the internet data was also noted.

The next step was to analyse and identify the reasons and motives contained in the data, and categorising under each of the four research questions. Where a reason or motive was not clear and explicit, a theme was identified and categorised accordingly into the four research questions.

4.8. Data Validity and Reliability

Saunders and Lewis (2012) define validity as "the extent to which (a) data collection method or methods accurately measure what they were intended to measure and (b) the research findings are really about what they profess to be about", and they list five principal factors which threaten the validity of research findings, and these include subject selection, history, testing, mortality and ambiguity about causal direction (Saunders & Lewis, 2012). For this research, the use of secondary data precludes the validity concerns when it comes to data collection as well as research findings. The reasons and motives for mergers and acquisitions are reported as they appear from the various data sources, and will not be subjected to the five factors that threaten validity as well as possible biases.

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Saunders and Lewis (2012) go on to define reliability as "the extent to which data collection methods and analysis procedures will produce consistent findings" (Saunders & Lewis, 2012). To verify reliability of the data collection methods and the analysis procedures followed, the same results must be produced if used by other researchers. The researcher is confident that this research study will pass the reliability test, and thus the data is considered to be reliable.

4.9. Research Limitations

According to Saunders and Lewis (2012) qualitative research is subjective and at risk of being affected by a number of biases (Saunders & Lewis, 2012). The identified research limitations are as follows"

- The major limitation is that the Competition Tribunal provides a summary of the rationale provided by the merging firms, the full comprehensive reasons are considered confidential and permission would have to be granted by the merging firms for access to the full record.
- The level of detail into the motives for acquisitions varies across the various company annual reports. The available data was however considered to be adequate for the purpose of this study.
- The sample was limited to only one industry, therefore it was not possible to generalise across all industries.
-

4.10. Summary

This chapter discussed the chosen qualitative research methodology and design for this study. The population and the sampling method were described, and the data collection and data analysis were explained. The research limitations were also listed. The following section presents the findings of the analysis of the data collected, presented according to the four research questions formulated in Chapter 3.

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5. RESULTS

5.1. Introduction

This chapter presents the findings of the analysis of the data collected, presented according to the four research questions formulated in Chapter 3. The first section of this chapter is a description of the sample, which introduces the JSE listed construction companies which represent the research sample, providing a brief background on each company and tabulating their M&A transactions for the period under consideration. The remainder of the chapter is a presentation of findings according to the four research questions.

5.2. Description of the companies

As stated in Section 4.4 the research sample comprises of seven JSE listed construction companies, namely: Aveng Limited, Basil Read, Group Five Construction (Pty) Ltd, Murray & Roberts Limited, Raubex Group Limited, Stefanutti Stocks (Pty) Ltd and Wilson Bailey Holmes-Ovcon Limited (WBHO).

5.2.1. Aveng Limited

Aveng Limited became a player in the construction industry in 1998 through its acquisition of minority (45.6%) shareholding in Alpha Limited (subsequently changed to Holcim SA). Aveng listed on the JSE in 1999, and acquired Grinaker Construction Limited, which delisted and became a wholly owned subsidiary of Aveng. In 2000 Aveng acquired 100% of the issued share capital of LTA Limited, merging the business with Grinaker to create the industry giant Grinaker-LTA Limited (Aveng, 2017).

For the period under consideration for the research, Aveng was involved in eight M&A transactions presented in Table 5-1, four of which were prohibited by the Competition Commission and one transaction was a disposal of its steel business in BEE transaction.

The significant transactions was the acquisition of Keyplan, a horizontal integration move to bolster its water division, as well as the acquisition of Dynamic Fluid Control (DFC), a vertical acquisition for manufacturing capabilities. The acquisitions occurred before the 2010 industry growth period, and the disposal was effected during the industry decline phase.

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Table 5-1: M&A transactions involving Aveng Limited

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2008 to March 2009			
Aveng (Africa) Limited	Wire Products (Pty) Ltd and others	Provision of steel products. Mergers prohibited by Commission	Vertical acquisitions
Aveng (Africa) Limited	Koedoespoort Reinforcing Steel (Pty) Ltd		
Aveng (Africa) Limited	Witbank Reinforcing and Wire Products (Pty) Ltd		
Aveng (Africa) Limited	Nelspruit Reinforcing Supplies (Pty) Ltd)		
Aveng Africa Limited	Keyplan (Pty) Ltd	Company which provides engineering services in the water management market in South Africa.	Horizontal acquisition
April 2010 to March 2011			
Aveng (Africa) Limited	Empowa Grinaker-LTA (Pty) Ltd	Manufacturing of electronic components such as antennas, switches, and waveguides.	No information on this transaction,
Aveng (Africa) Limited	Dynamic Fluid Control (Pty) Ltd	Dynamic Fluid Control (DFC), a leading water valve manufacturer	Vertical acquisition
April 2016 to March 2017			
Kutana Steel Proprietary Limited	Aveng Africa Proprietary Limited, in respect of the business known as Aveng Steeldale	Multi-disciplinary construction and engineering company with interests in construction, renewable energy and contract mining projects in Africa.	Aveng disposing of assets to a BEE company

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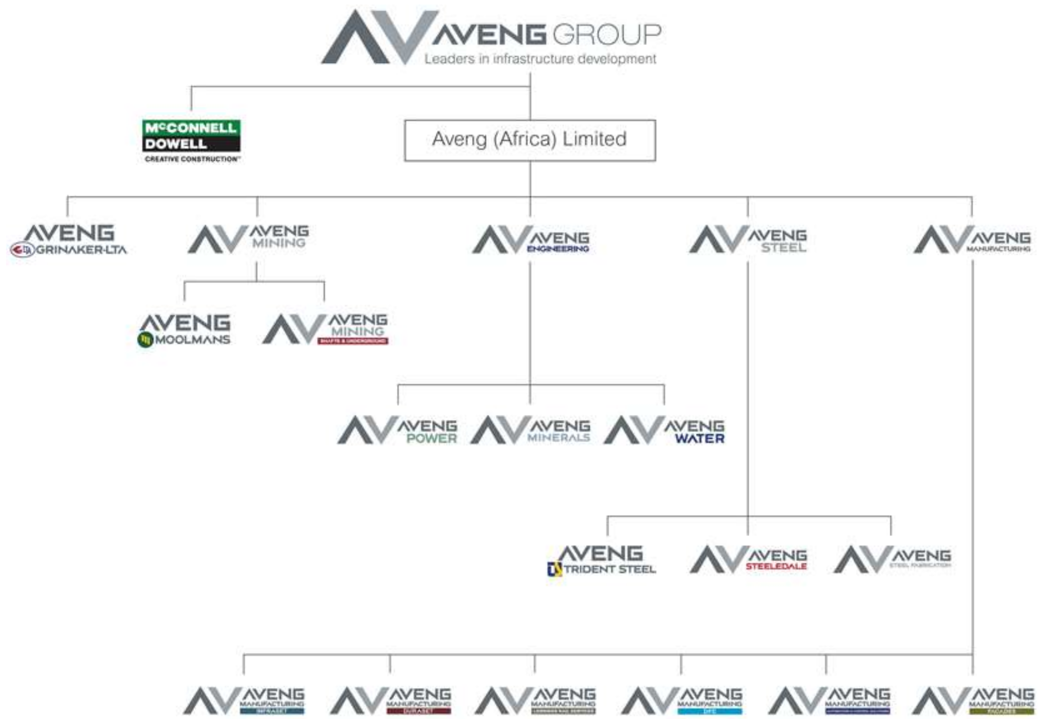
The Aveng Group operating structure in shown in Figure 5-1, DFC operates as a standalone subsidiary under Aveng Manufacturing, Keyplan was incorporated into Aveng Water, and the Steeldale subsidiary under Aveng Steel was sold off to Kutana steel in 2017.

Figure 5-1: Aveng Group operating structure (Aveng, 2017)



5.2.2. Basil Read

Basil was formed in 1952 by Mr Basil Leonard Read as a civil engineering construction company. In 1974 the company merged with CMGM, McLaren & Eger, Peter Clogg Construction and MCG Engineering to form the construction conglomerate Group Five, which was listed on the JSE in 1974. However in 1984, directors of Basil Read effected a management buy-out from Group Five, motivated by their wish to preserve their identity, and in 1987 Basil Read was listed on the JSE (Basil Read, 2017).

For the period under consideration for this research, Basil Read was involved in six M&A transactions presented in Table 5-2, four of which were vertical integration moves and two horizontal. All the transactions occurred during the industry growth period preceding the 2010 soccer world cup.

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Table 5-2: M&A transactions involving Basil Read

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2006 to March 2007			
Basil Read (Pty) Ltd	Stone Allied Industries (OFS) Ltd	Stone And Allied Industries Limited operates as a stone crushing company.	Vertical integration. Provision of inputs into the production of construction materials.
Basil Read (Pty) Ltd	Spray Pave (Pty) Ltd	The company specialises in supplying and spraying top-quality bituminous products for Basil Read and other leading construction companies.	Vertical integration in the downstream construction market.
April 2007 to March 2008			
Basil Read (Pty) Ltd	Blasting & Excavating (Pty) Ltd	Blasting & Excavating (Pty) Ltd offers drilling and blasting services.	Vertical integration. Drilling and blasting services are inputs into earthworks operations for construction.
April 2008 to March 2009			
Basil Read (Pty) Ltd	Roadcrete Africa (Pty) Ltd	Civil engineering contractor dealing primarily in township infrastructure and related bulk services.	Horizontal integration, merging of similar activities.
April 2009 to March 2010			
Basil Read (Pty) Ltd	Mvela Phanda Construction (Pty) Ltd	Mvela Phanda Construction (Proprietary) Limited provides construction and engineering services.	Horizontal integration, merging of similar activities.
Basil Read Holdings Limited	TWP Holdings Limited	Provides a wide range of services to the mining industry, including project management, construction, engineering design, mine design and planning, environmental services, ore body assessment, and underground mining services.	Vertical integration for input activities, as well as horizontal integration for construction activities.

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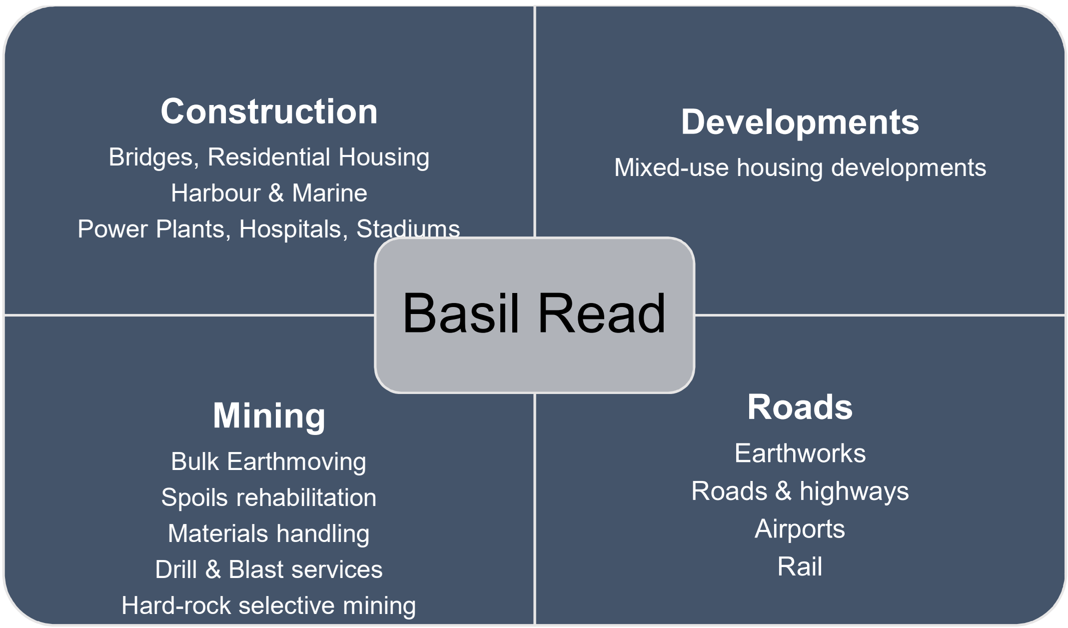
The Basil Read operational structure is as shown in Figure 5-2. The acquisition of Stone Allied Industries, Blasting & Excavation, TWP were made to vertically integrate the Construction, Roads and Mining divisions. Spray Pave to vertically integrate the Roads division, whilst Mvela Phanda and Roadcrete Africa were made to horizontally integrate the Construction, Developments and Roads divisions.

Figure 5-2: Basil Read operational structure



5.2.3. Group Five

As indicated in Section 5.2.2 Group Five was formed and listed on the JSE in 1974, by the coming together of five construction companies, namely Basil Read, CMGM, McLaren & Eger, Peter Clogg Construction and MCG Engineering.

For the period under consideration Group Five was involved in five M&A transactions, two of which were vertical integration moves, one horizontal and two disposals. The acquisitions occurred during the growth phase, and the disposals during the industry decline phase.

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Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2005 to March 2006			
Group Five Construction (Pty) Ltd	JT Ross Properties (Pty) Ltd	Property development	No information available, horizontal integration, diversifying to new product/service offerings
April 2006 to March 2007			
Group Five Construction (Pty) Ltd	Quarry Cats (Pty) Ltd	supply of sand and stone for the construction industry	Vertical integration, the target firm is involved in the upstream activities of supply of sand and stone.
April 2007 to March 2008			
Group Five Construction (Pty) Ltd	Sky Sands (Pty) Ltd, Fixtrade 568 (Pty) Ltd, Wilde-Alsput Eiendomme (Pty) Ltd and Tradmil Trading 10 (Pty) Ltd	Engages in the production and supply of plaster and washed sand products to building materials merchants, the building industry, and the precast concrete products industry	Vertical integration, Sky Sands provides inputs to the construction industry.
April 2012 to March 2013			
Drift Super Sand (Pty) Ltd	Group Five Construction (Pty) Ltd	Capabilities encompass project development, investment, construction, operations and maintenance and the manufacturing and supply of construction products.	Group 5 disposing of assets
Afrisam (SA) (Pty) Ltd	Group Five Construction (Pty) Ltd		Group 5 disposing of assets

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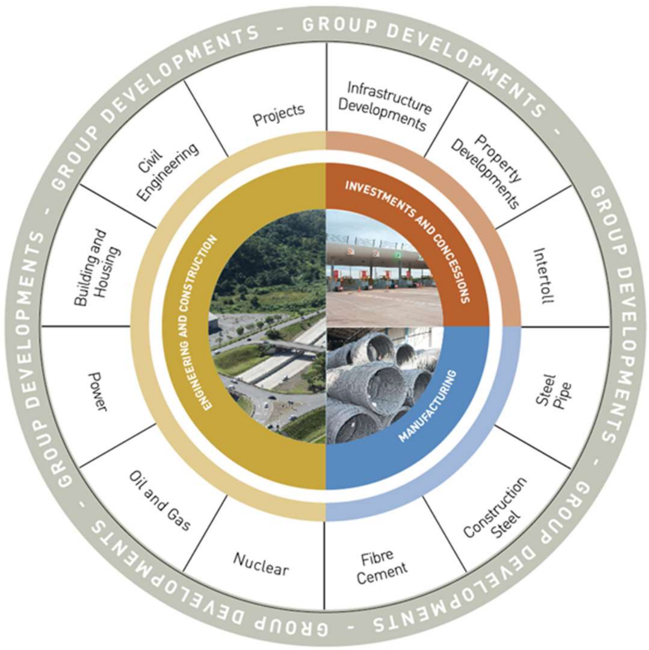
The Group Five operating structure is shown in Figure 5-3. Information on the acquisition of JT Ross Properties was not available but it is believed it was a horizontal integration move aimed at diversifying into new product/service offering. The acquisition of Quarry Cats and Sky Sands was a vertical integration move aimed at securing the supply of material inputs for the Engineering and Construction divisions.

Figure 5-3: Group Five Group Structure (Group Five, 2017)



5.2.4. Murray & Roberts Limited

Murray & Roberts (M&R) was formed in 1902 as an emerging house builder in the Cape Colony, growing in its first 75 years under the leadership of its founding families. The Roberts Construction Company had converted to a public company in 1948 and was listed on the JSE Limited in 1951. Murray & Roberts was formed in 1967 following its merger with Murray & Stewart (Murray & Roberts, 2012).

For the period under consideration for this research, M&R was involved in fifteen M&A transactions shown in Table 5-3. Nine of these transactions were disposal of what they refer to non-core assets, three horizontal integration transactions and the remaining three were a combination of vertical and horizontal integration moves.

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Table 5-3: M&A transactions involving Murray & Roberts

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2003 to March 2004			
Murray & Roberts Limited	The Cementation Company (Africa) Limited	Cementation operates two divisions, namely, drilling and mining. Its drilling division provides services such as surface drilling, underground drilling, raise boring and drop raising whilst the mining division focuses on underground construction and mine development, tunnelling and stopping, shaft sinking, and cementation and underground drilling.	This acquisition is horizontal, as both companies play in the mining construction and development field, although they offer different but complementary services.
April 2005 to March 2006			
Jay & Jayendra (Pty) Ltd	The Criterion Business of Murray & Roberts Holdings Limited	No information on this transaction, a mention in the M&R 2006 annual report. In line with our strategy to dispose of non-core businesses, we sold equipment company Criterion to Jay & Jayendra Group in an empowerment transaction.	Disposal of non-core assets by Murray and Roberts
Murray & Roberts Limited	Oconbrick Manufacturing (Pty) Ltd	Oconbrick is a clay masonry manufacturer, producing products for application in the paving and brick markets.	Vertical acquisition for the Murray & Roberts Construction Division, input side.
April 2006 to March 2007			
Murray & Roberts Limited	Concor Limited	Concor has the following operating divisions: Concor Building Division, Concor Civils, Concor Engineering, Underground Mining, Opencast Mining, Concor Roads, Concor Technicrete and Concor Facility Management.	Horizontal overlap in the construction activities for buildings, roads and civil works. There's also a vertical overlap as both entities supply products in the downstream construction market
Murray &Roberts Limited	Wade Walker (Pty) Ltd	Wade Walker is a provider of electrical and instrumentation procurement and installation services to the industrial sector including mining, water treatment, petrochemical, iron & steel and environmental & power industries.	Elements of horizontal integration, as WW will form part of M&R MEI but the move is mostly vertical as M&R traditionally sub-contracted the services offered by WW.
April 2007 to March 2008			
Halberg Guss GmbH	Murray & Roberts Foundries (Pty) Ltd	Murray & Roberts Foundries Group (Pty) Limited manufactures and supplies engine blocks and various automotive parts to original equipment manufacturers in South Africa and internationally.	Disposal of non-core assets by M&R,

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April 2009 to March 2010			
Murray & Roberts Steel (Pty) Ltd	Reinforcing Steel Contractors, Precast Reinforcing Steel,	Manufacturing and provision of steel products to the construction industry.	Horizontal integration for M&R steel, and vertical for M&R group.
April 2010 to March 2011			
Brodsky Investments, Capital Property, Resilient Properties	Murray and Roberts Limited	The primary target firms are 24 properties owned by Murray and Roberts.	Murray & Roberts disposing of its properties, non-core assets.
April 2011 to March 2012			
Murray & Roberts Steel (Pty) Ltd	Alert Steel Reinforcing (Pty) Ltd	Provisions of steel products to the construction industry	Horizontal integration, similar product offerings.
April 2012 to March 2013			
Primeprac (Pty) Ltd	Murray & Roberts Retail Asset Management (Pty) Ltd	M&R Retail was created to house Murray & Roberts' steel business which engages in the manufacturing and supply of reinforcing steel solutions to construction firms together with various other products.	M&R disposing of what they refer to as non-core assets.
April 2013 to March 2014			
Newshelf 1261 (Pty) Ltd	The Construction Products Division of Murray & Roberts Limited	The primary target firms are the (i) Technicrete; (ii) Ocon; and (iii) Rocla businesses within the Construction Products Division of Murray & Roberts Ltd wholly-owned subsidiaries of the Murray & Roberts Group.	M&R disposing of what they refer to as non-core assets.
Newshelf 1260 (Pty) Ltd	The Much Asphalt Business of Murray & Roberts	Specialises in the manufacture and laying of all types of asphalt.	M&R disposing of what they refer to as non-core assets.
Afgate Properties (Pty) Ltd	Murray & Roberts Limited	Selling off of wholly owned steel pipe manufacturing business, Hall Longmore	M&R disposing of what they refer to as non-core assets.
April 2016 to March 2017			
Nisela Capital Proprietary Limited	Murray & Roberts Limited	Genrec Engineering from JSE-listed Murray and Roberts Holdings	Murray & Roberts disposing of what they refer to as non-core assets.
Firefly Investments 319 Proprietary Ltd	Murray & Roberts Ltd	The M&R entities are engaged in the business of civil engineering, building, roads, open cast mining, power stations, plant and equipment and property development.	Murray & Roberts disposing of what they refer to as non-core assets.

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The Murray & Roberts operating structure, prior to disposal of non-core assets, is shown in Figure 5-4. Notable acquisitions are vertical integration moves for Alert Steel, Reinforcing Steel Contractors, and Oconbrick for the purpose of input supplies for the Construction and Buildings divisions. The acquisition of Concor Limited was a horizontal integration. The company has now disposed of a number of subsidiaries and what they refer to as non-core assets, focusing their operations on Oil & Gas, Underground Mining, and Power & Water.

Figure 5-4: Murray & Roberts operating structure prior to disposal of non-core assets,
(Murray & Roberts, 2016)

5.2.5. Raubex Group Limited

Raubex was founded in 1974 by Mr Koos Raubenheimer, starting off as a structures contractor in what is now the Free State Province. The company diversified into road construction and crushing over the following ten years, and eventually starting doing work outside the Free State between 1987 and 1996. The company was listed in March 2007 on the JSE, during a period of phenomenal growth for the company through both organic and acquisitive expansion (Raubex, 2017).

For the period under consideration Raubex was involved in nine M&A transactions shown in Table 5-4. Two of the transactions were horizontal integration moves, and two were vertical. The remaining five were a combination of vertical and horizontal

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integration moves, whereby at Group level the transaction would be considered vertical and at company level the transaction would be considered as horizontal integration. The acquisitions have occurred during both the growth and decline phases of the industry.

The Raubex Group operating structure is shown in Figure 5-5. The acquisition of Aquatic Services and OMV were made to grow (horizontally) the Materials Division on the input side, but further vertical integration of the Raubex Group. Similarly, the acquisitions of National Asphalt and Tosas were made to grow the Materials Division on the output side, but strengthen the vertical integration of the group. The Raubex Group is vertically integrated, benefiting along the entire supply chain in a typical construction project, what the company has done very well is making acquisitions that not only add new capabilities, but also strengthen existing companies along the value chain.

Figure 5-5: Raubex Group operating structure (Raubex, 2017)

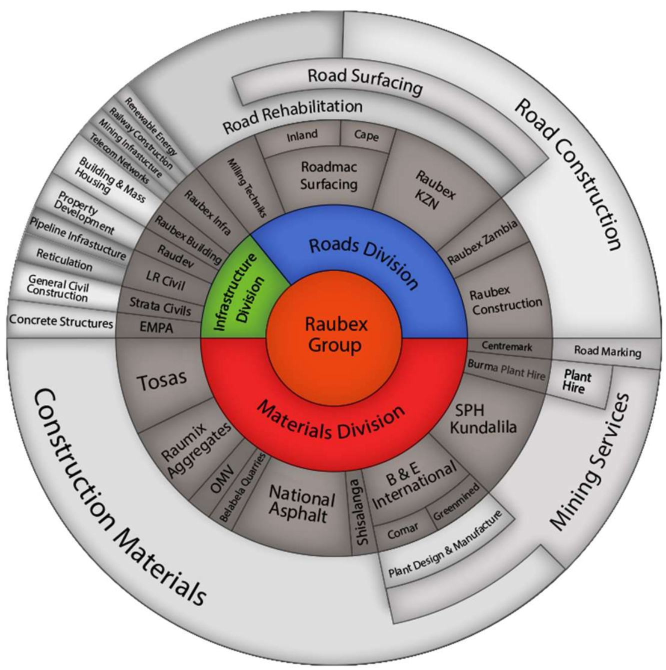

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Table 5-4: M&A transactions involving the Raubex Group

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2006 to March 2007			
Raumix (Pty) Ltd	Aquatic Service	The SPH (through holding company Aquatic Services (Pty) Limited) group consists of specialist quarry, aggregate and plant hire operations and is also involved in the mining, crushing and screening of sand and reef.	Elements of horizontal integration, as Raumix and SPH are both involved in quarries and supply of materials to the construction industry. Elements of vertical integration too as SPH is involved in the operation of quarries and plant hire.
Road Mac Surfacing (Pty) Ltd	National Asphalt (Pty) Ltd	Specialising in the manufacture and laying of all types of asphalt.	Vertical integration, National asphalt manufactures asphalt products as inputs for the construction of roads which Roadmac specialises in.
April 2008 to March 2009			
Raubex Group Limited	B&E International Holdings (Pty) Ltd	Mobile and static crushing division, followed by further diversification into mining services and bulk mining and minerals processing and beneficiation.	B&E acquired to complement Raumix, vertical division of Raubex, which would make this a horizontal integration with Raumix but vertical with Raubex Construction.
Raubex Construction (Pty) Ltd	Space Construction (Pty) Ltd	Space Construction (Pty) Limited engages in road construction and other civil engineering activities.	Horizontal integration, two companies carry out similar activities.
Raubex Construction (Pty) Ltd	Zamori Construction (Pty) Ltd	Zamori Construction (Proprietary) Limited engages in construction of roads.	Horizontal integration, two companies carry out similar activities.
Roadmac Surfacing (Pty) Ltd	Bonn Plant Hire (Pty) Ltd	Bonn Plant Hire (Pty) Ltd. operates as Construction Contractors and provides Engineering Services.	Acquisitions to complement Roadmac, vertical division of Raubex, which would make this a horizontal integration with Roadmac but vertical with Raubex Construction
April 2013 to March 2014			
Raubex Group Limited	Tosas Holdings (Pty) Ltd	Tosas, a leading manufacturer and distributor of value-added bituminous products	Vertical integration. Tosas provides products in the downstream market, for Raubex and other companies downstream
National Asphalt (Pty) Ltd	Shisalanga Construction (Pty) Ltd	Hydro texturizing, a cost effective and environmentally sound solution for repairing flushed bituminous pavements.	National asphalt is a vertically integrated company in Raubex. This move can be seen as a horizontal integration move for Raubex construction division
April 2015 to March 2016			
Raumix Aggregates Proprietary Limited	OMV Kimberley and OMV Kimberley Mining	The OMV group produces aggregates that are used, among others, as road stone by road contractors, in asphalt production and high-quality concrete applications.	Raumix is a vertical integrated firm for Raubex, this merger is a horizontal integration (for Raumix) of their vertical operations.

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5.2.6. Stefanutti Stocks (Pty) Ltd

The company was founded in 1971 as I. Bressan Construction (Pty) Ltd by Ivo Bressan and Vico Gollino. Mr Gino Stefanutti joined in 1973, and the company was awarded its first bridge contract in 1974, Mr Gollino left in 1976 and the company was renamed Stefanutti & Bressan (Pty) Ltd in 1979. The company made a number of notable acquisitions over the years for the purposes of growth, the most notable being the acquisition of Stocks Limited in 2008, which led to the renaming of the company to Stefanutti Stocks (Pty) Ltd. The company was listed on the JSE in 2007 (Stefanutti Stocks, 2008).

For the period under consideration the company has been involved in six M&A transactions shown in Table 5-5. Five of the transactions can be described as horizontal integration moves, diversifying into new product offerings and strengthening the existing business. One transaction is considered a combination of horizontal and vertical integration. The operational structure of the company is shown in Figure 5-6. The acquisition of Skelton & Plumber formed what is now the Mechanical & Electrical Division, later bolstered by the addition of Energotec. Stocks Limited formed what is now Building Business Unit, and Cycad Pipelines formed the pipelines division whilst Civil and Coastal Construction bolstered the Building and Structures Business Units.

Figure 5-6: The operational structure of Stefanutti Stocks (Stefanutti Stocks, 2017)

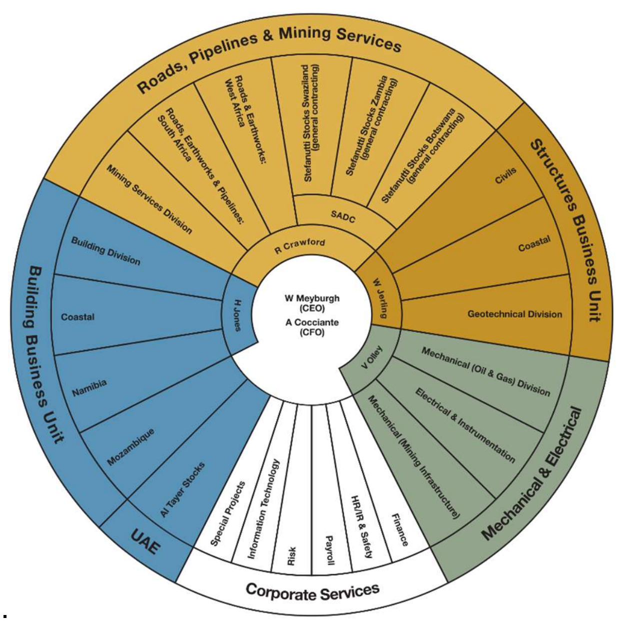

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Table 5-5: M&A transactions involving Stefanutti Stocks (Pty) Ltd

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2006 to March 2007			
Stefanutti & Bressan Holdings (Pty) Ltd	Environmental, Civil & Mining Projects (Pty) Ltd	The Company operates waste management, open pit mining, materials handling projects, and environmental engineering technologies and solutions.	Elements of horizontal overlap but mostly vertical integration as ECMP provides specialist environmental inputs into mining and construction activities.
April 2007 to March 2008			
Stefanutti & Bressan Holdings Limited	Civil and Coastal Construction (Pty) Ltd	Civil & Coastal Construction is a specialised marine and structural rehabilitation contractor,	Horizontal integration, diversifying into new product/service offering. Construction of marine infrastructure.
Stefanutti & Bressan Holdings Limited	Skelton & Plummer Investment Holding Company (Pty) Ltd	The Skelton & Plummer Group undertakes mechanical, electrical and instrumentation construction work in the industrial, mining, manufacturing, and petrochemical sectors.	Horizontal integration, diversifying into new product/service offering.
April 2008 to March 2009			
Stefanutti & Bressan Holdings Limited	Stocks Limited	Group responsible for some of the most prestigious building projects in Southern Africa	Horizontal acquisition, complementary activities
April 2011 to March 2012			
Stefanutti Stocks (Pty) Ltd	Cycad Pipelines (Pty) Ltd	Cycad is involved in the pipeline construction market and specialises in pipe-laying and pipe refurbishment activities in the water, gas, fuel and sewerage industries.	Horizontal integration, with a view of diversifying product/service offerings.
April 2013 to March 2014			
Stefanutti Stocks (Pty) Ltd	Energotec (a division of First Strut (Pty) Ltd)	Energotec is engaged in the installation of electrical solutions primarily within the petrochemical industry. It has one customer.	Horizontal integration, to complement Stefanutti's existing business

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5.2.7. Wilson Bailey Holmes-Ovcon Limited (WBHO)

The company was founded in 1970 by John Wilson and Brian Holmes as Wilson-Holmes (Pty) Ltd. Through a number of mergers the name changed to Wilson Bailey Holmes (Pty) Limited in 1983 and finally to WBHO Construction in 1994. The group listed on the JSE in 1988.

For the period under consideration the company has been involved in eight M&A transactions shown in Table 5-6. Three of the transactions are considered vertical integration moves, three horizontal and the remaining two a combination of vertical and horizontal integration. The operational structure of the company is shown in Figure 5-7. The acquisition of Insitu Pipelines, LET, Edwin and Renniks were made to strengthen or grow the Roads and Earthworks Divisions. Matkovich & Hayes as well as Simbithi Eco-Estate were made for growth of the Building Division, whilst Capital Africa Steel and Roadspan were made for the supply of materials on the input and output side of production respectively.

Figure 5-7: Operational structure of the WBHO Group (WBHO, 2017)

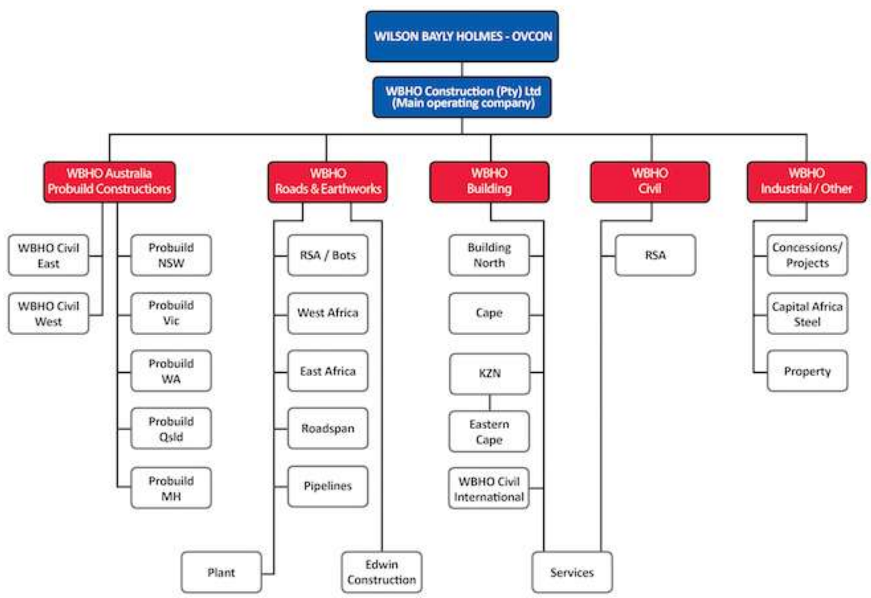

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Table 5-6: M&A transactions involving WBHO.

Acquiring Firm	Target Firm	Target Activities	Type of Acquisition
April 2005 to March 2006			
Wilson Bayly Holmes-Ovcon Ltd	Capital Africa Steel (Pty) Ltd	Manufactures and supplies steel and concrete products to construction, civil engineering, and mining industries in Southern Africa.	Vertical acquisition. Capital Africa Steel products are used as inputs for WBHO construction activities.
April 2006 to March 2007			
Wilson Bayly Holmes-Ovcon Ltd	Matkovich &Hayes (Pty) Ltd	Specialist company operating in the golf estate development sector.	Horizontal overlap in the construction of golf courses, but acquisition is mainly vertical, as M&H provides design outputs for construction, and outputs in the form of maintenance and operation of golf courses.
April 2007 to March 2008			
Wilson Bayly Holmes-Ovcon Limited	Insitu Pipelines CC	The company's services include trenchless techniques, such as slip lining, pipe bursting, IPL cured-in-place pipe linings, and micro tunnelling; conventional pipelines; CCTV camera inspections; and other services	Elements of horizontal integration in pipeline construction, but Insitu provides specialists technologies which are complementary to WBHO activities. So the move also has elements of vertical integration.
Wilson Bayly Holmes-Ovcon Limited	LET Construction (Pty) Ltd	LET specialises in reinforced concrete structures such as bridges, water works, sewage works, filtration plants, reservoirs, mining and industrial infrastructural works.	Horizontal integration, similar activities.
WBHO Construction (Pty) Ltd	Simbithi Eco-Estate (Pty) Ltd		Horizontal overlap in the development of residential properties, diversifying into new product offerings.
April 2009 to March 2010			
WBHO Construction (Pty) Ltd	Roadspan Holdings (Pty) Ltd	Subsidiaries of Roadspan are involved in the manufacture and supply of (cold and hot mix) asphalt, as well as the provision of road surfacing and rehabilitation services.	Vertical integration, Roadspan provides inputs downstream. Some elements of horizontal with road rehabilitation services.
April 2010 to March 2011			
WBHO Construction (Pty) Ltd	Renniks Construction (Pty) Ltd	Renniks is a specialist sliding and civil engineering company.	No info on the transaction, but it appears to be a horizontal acquisition with a view of diversifying product offering.
April 2013 to March 2014			
WBHO Industrial Holdings (Pty) Ltd	Capital Africa Steel (Pty) Ltd	CAS's main activities include the manufacture and supply of steel products as well as the supply of stone and concrete aggregate products to the construction, civil engineering and mining industries in Southern Africa.	Vertical integration. CAS provides inputs upstream and downstream

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The following sections present the reasons and rationale provided in the various data sources and the results are set out according to the research questions presented in Chapter 3.

5.3. Results for Research Question 1

Do construction companies adopt horizontal acquisitions to enhance efficiencies and synergies?

The aim of this research question is to explore and identify the motives and reasons behind horizontal acquisitions, as the literature suggest there to be efficiency and synergy gains from horizontal transactions. The M&A transactions which, under Section 5.2, were classified as horizontal acquisitions had the following motives attached.

The Basil Read acquisition of Roadcrete Africa was classified as horizontal due to the merging of similar services, and the motive provided by Basil Read was *"Since this business is identical to Basil Read's roads and civils operating division, synergies exist which will enhance the competitiveness and profitability of the roads and civils division"* (Engineering News, 2008a).

For Murray & Roberts' acquisition of the Cementation Company (Africa) Limited, a move described as horizontal due to the similarity and complementarity of products and services, M&R stated that there was a high level of technical interaction and complementarity between M&R's internal cementation division and the acquired target (Murray & Roberts, 2005). For the acquisition of Concor Limited, where the two companies had a horizontal overlap of construction activities, M&R stated that it would go about achieving efficiencies by integrating the various Concor operational divisions within M&R, and they did this by relocating M&R's roads and earthworks business to Concor which had a reputable roads management team, closing of Concor's underground mining business and the relocation of its resource base to Murray & Roberts Cementation, relocation of M&R's toll road concessionaires to Concor and relocation of concession investments held by Concor to the M&R concession investment portfolio (Murray & Roberts, 2006).

The M&R Steel acquisition of Alert Steel Reinforcing, a horizontal integration of similar product offerings, was an opportunistic acquisition of a company in financial trouble. Alert Steel Holdings had over the years been suffering from enormous financial losses, and

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M&R believed they could return the company to profitability through its own extensive expertise, and efficiencies in that particular rebar market (Competition Tribunal South Africa, 2011).

The Raubex Group's National Asphalt acquisition of Shisalanga Construction, a horizontal move for Raubex construction division, the motive provided was that it is a value chain enhancing acquisition in line with Raubex's existing business model of growth through acquisitions.

Stefanutti Stocks' horizontal acquisition of Energotec was made in order to complement Stefanutti's existing business. Post the transaction the business was absorbed into Stefanutti Stocks' Electrical & Instrumentation division, as it complemented and strengthened the group's existing electrical and instrumentation activities. Stefanutti only acquired certain fixed assets, payroll liabilities and human capital expertise which were integrated into the group's existing electrical and instrumentation operation. For Stefanutti's horizontal acquisition of Cycad Pipelines, the motives was that the two companies had been co-operating on a number of joint ventures, the main factor for the transaction being that the *"the cultures of the two businesses complemented one another"* (Cokayne, 2011).

WBHO's acquisition of Matkovich &Hayes is considered a combination of horizontal and vertical integration. WBHO is in the business of constructing golf courses, Matkovich & Hayes in the business of design, construction and maintenance of golf courses. There is a horizontal overlap in the construction of golf courses, and a vertical overlap as M&H provides design inputs for construction, and outputs in the form of maintenance and operation of golf courses. The stated motive for the transaction was *"this acquisition should create synergies for the group and we will be able to offer developers a "one stop" service"* (WBHO, 2006). For the acquisition of Insitu Pipelines, also a combination of horizontal and vertical integration, WBHO stated that "*there is great synergy in terms of the work we do and WBHO will now be able to facilitate Insitu's participation in multifaceted contracts"* (Spadavecchia, 2007b).

5.3.1. Summary of motives

The motives put forward for horizontal acquisitions, pertaining to research question one, are listed:

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1. Synergies exist which will enhance the competitiveness and profitability of the roads and civils division
2. A high level of technical interaction and complementarity between M&R's internal cementation division and the acquired target
3. Achieving efficiencies by integrating the various Concor operational divisions within M&R.
4. M&R believed they could return the company to profitability through its own extensive expertise, and efficiencies.
5. It is a value chain enhancing acquisition in line with Raubex's existing business model of growth through acquisitions.
6. Acquisition of Energotec was made to complement Stefanutti's existing business
7. As it complemented and strengthened the group's existing electrical and instrumentation activities.
8. Were integrated into the group's existing electrical and instrumentation operation.
9. The cultures of the two businesses complemented one another.
10. This acquisition should create synergies for the group and we will be able to offer developers a "one stop" service.
11. There is great synergy in terms of the work we do and WBHO will now be able to facilitate Insitu's participation in multifaceted contracts.

Of the eleven motives and reasons listed, the theme of synergy and efficiencies is mentioned on five occasions. Another theme which emerged is integration and complementarity, which was also mentioned on five occasions.

5.4. Results for Research Question 2

Do construction companies adopt unrelated horizontal acquisitions to gain immediate access to new markets?

The aim of this research question is to explore and identify the motives and reasons behind unrelated horizontal acquisitions. According to the literature, construction companies in South Africa will mostly undertake horizontal acquisition of unrelated companies for the purpose of entering new business or product markets, and that they will have other motives such as market power or efficiency gains in pursuing related acquisitions. The M&A transactions which, under Section 5.2, were classified as horizontal acquisitions had the following motives attached.

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Aveng's acquisition of Keyplan, classified as a horizontal acquisition, the main purpose of which was for Aveng to diversify into new product offerings. The motive provided was that "*the transaction represents an opportunity for Aveng Africa to enter the market for the provision of process design engineering services to clients who require water and wastewater treatment services. Aveng Africa believes that the transaction will enable it to enter into the environmental services industry in Southern Africa"* (Competition Tribunal South Africa, 2008). For the acquisition of Dynamic Fluid Control (Pty) Ltd, Aveng stated that "*the proposed transaction will facilitate Aveng's expansion in the water treatment market. DFC has a broad customer base to expand or create business opportunities in the water treatment and mining sectors"*(Competition Tribunal South Africa, 2010a). This particular transaction was however classified as vertical integration, since DFC was involved in the manufacturing and supply of inputs in the upstream and downstream markets.

Basil Read's acquisition of Mvela Phanda Construction, a horizontal integration of similar service offerings, Basil Read pointed out that Mvela Phanda had *"recently gained valuable experience in the construction of hospitals and prisons and has expanded into the civil engineering arena"* (Engineering News, 2009). The construction of hospitals and prisons was a competency which Basil Read did not possess at the time. For the acquisition of TWP Holdings, Basil Read stated that "*this newest division in the group will capitalise on increased demand for companies that offer turnkey services and specialist skills for construction projects"* (Basil Read, 2009). This transaction was also classified as a combination of horizontal and vertical integration. For the acquisition of Stone Allied Industries, also a vertical integration transaction as Stone Allied provides inputs into the production of construction materials, one of the stated motives by Basil Read was the "strong geographical positions" of Stone Allied Industries operations.

For Murray & Roberts' acquisition of The Cementation Company, the stated motives were; *"the transaction is a significant step towards realising our ambition of becoming a pre-eminent player in a number of markets" "M&R claims that this deal will enhance its ability to tender for major projects in Africa, outside South Africa, as well as in North America (mainly Canada), South and Central America, Australia and Southeast Asia"* (Competition Tribunal South Africa, 2004). *"Indeed, the merger was attractive precisely because the two organisations were so different in terms of the markets they addressed. It was not a case of Murray & Roberts buying out a competitor for predatory reasons"* (Murray & Roberts, 2005). For the acquisition of Oconbrick Manufacturing, M&R stated

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that "*the company is the third largest supplier in its market and together with Harvey Roofing will form the core of our strategy to serve the developing affordable housing market in South Africa"* (Murray & Roberts, 2006), it is however worth noting that this particular transaction was classified as a vertical acquisition.

For the M&R acquisition of Concor, **"***M&R believes that the acquisition will inter alia be value enhancing for it and will give it access to capabilities that M&R do not currently have"* (Competition Tribunal South Africa, 2006), *"the acquisition of 100% of Concor Limited marks another important milestone in the creation of a new performance platform for the Group. Highly regarded in the domestic construction market for its ability to take on complex engineering projects Concor will be managed as an independent business and will retain its own identity as the market segment it serves is different from that of Murray & Roberts Construction"* (Murray & Roberts, 2006)

For the acquisition of Wade Walker, M&R stated that "*the transaction is an opportunity for M&R to acquire a business active in an area in which M&R does not operate." The merging parties explained that pre-merger M&R MEI was not recognised as an E&I contractor in the all-important Gauteng market. Despite its name, M&R MEI has a large mechanical and piping, as opposed to an E&I presence. Its E&I business was confined to the KZN region and then only in the pulp and paper industry"* (Competition Tribunal South Africa, 2007a).

For the disposal of M&R Foundries, the acquiring company Halberg Guss GmbH, the stated motive was that *"the transaction was effective from last month and represented new foreign investment in South Africa"* (Business Report, 2007a).

The Raubex Group's Raumix acquisition of Aquatic Services, the stated motives was that *"the acquisition opens new routes to market for the division and secured a high quality new client base including mining houses"* (Raubex, 2007). It was also stated that the directors of Raubex will continue to identify value enhancing opportunities in Southern Africa, as well as geographies well known to the company. For the vertical acquisition of National Asphalt, the stated motive by Raubex was "*this acquisition has provided a platform for National Asphalt to service the market on a much broader base, and already the company has 12 asphalt plants strategically placed in Kwazulu-Natal, the Free State, Mpumalanga and Gauteng"* (National Asphalt, 2007).

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For Raubex Group's acquisition of B&E International Holdings, acquired to complement Raumix (vertical division of Raubex), making this a horizontal integration with Raumix, Francois Diedrechsen, Raubex's commercial and financial director, said *"the acquisition opened new routes to market for its aggregates division, Raumix, and complemented its growth plans in the civil infrastructure and mining supply sectors. B&E has developed an extensive footprint in southern Africa over its 35-year history"* (Spadavecchia, 2007).

For the horizontal acquisitions of Space Construction and Zamori Construction, the stated motives were **"***Space Construction increases Raubex Construction's regional presence and capacity'* and *"the firms' combined resources and expertise would ensure greater access to projects"* respectively (Raubex, 2008).

Roadmac Surfacing acquisition of Bonn Plant Hire, **"***strategically positioned in Gauteng, the fleet and extensive asphalt manufacturing capability provides additional capacity and secures supply to meet the demand of the Gauteng Freeway Improvement Project and various other regional schemes"* (Raubex, 2008). National Asphalt's acquisition of Shisalanga Construction, *"having recently acquired a majority shareholding in Shisalanga Construction, National Asphalt is now in a unique position to offer further advanced solutions to this sector."* This transaction was viewed as being part of the strategy of expanding existing business models into new geographies.

Stefanutti & Bressan's horizontal acquisition of Stocks Limited, the stated motive was that **"***the merger will enable Stefanutti to penetrate and expand in the Gauteng and Cape regions where Stocks is strongly present, and Stocks to penetrate KZN where Stefanutti is strongly present." "The proposed transaction will, on the one hand, enable Stefanutti to expand beyond the South African borders and draw from Stocks' expertise in partnering with Middle Eastern companies"* (Competition Tribunal South Africa, 2008b). For the acquisition of Cycad Pipelines, *"Stefanutti will have more access to specialist skills and will have the ability to participate in the pipeline construction market, which it identified as being a growth sector in the South African market". "The acquisition is in line with our growth strategy to broaden our service offering in the construction sector"* (Competition Tribunal South Africa, 2011b). *"Stefanutti Stocks said the rationale for the transaction was that water infrastructure distribution expansion and rehabilitation was expected to form an integral part of the government's future investment, which had led to it identifying the pipeline construction market as a growth sector within the economy"* (Cokayne, 2011).

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"Stefanutti Stocks notes that the acquisition will provide it with the prospects of expanding its service offerings, as well as the opportunity to participate in the pipeline construction market to enhance the enlarged Stefanutti Stocks group's access to specialist skills, asset base and management capacity, and to improve operating margins" (Venter, 2011). For the acquisition of Skelton & Plummer, **"***the acquisition exposes S&B to the fast-growing mining, oil and gas and power generation industries which utilise Skelton & Plummer's services." "The acquisition is mutually advantageous, giving Stefanutti & Bressan a further foothold in the mechanical and electrical construction field"* (Stefanutti Stocks, 2016).

WBHO's acquisition of Insitu Pipelines, the company stated that *"the acquisition will extend the footprint of our roads and earthworks and infrastructure division, because of Insitu's highly specialised offering"* (Spadavecchia, 2007b).

5.4.1. Summary of motives

The motives put forward for horizontal acquisitions, pertaining to research question two, are listed:

1. The transaction represents an opportunity for Aveng Africa to enter the market for the provision of process design engineering services
2. Aveng Africa believes that the transaction will enable it to enter into the environmental services industry in Southern Africa
3. The proposed transaction will facilitate Aveng's expansion in the water treatment market. DFC has a broad customer base to expand or create business opportunities in the water treatment and mining sectors.
4. Recently gained valuable experience in the construction of hospitals and prisons and has expanded into the civil engineering arena.
5. This newest division in the group will capitalise on increased demand for companies that offer turnkey services and specialist skills for construction projects.
6. Strong geographical positions
7. The transaction is a significant step towards realising our ambition of becoming a pre-eminent player in a number of markets
8. Indeed, the merger was attractive precisely because the two organisations were so different in terms of the markets they addressed.

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9. Form the core of our strategy to serve the developing affordable housing market in South Africa.
10. The acquisition will inter alia be value enhancing for it and will give it access to capabilities that M&R do not currently have.
11. Concor will be managed as an independent business and will retain its own identity as the market segment it serves is different from that of Murray & Roberts Construction.
12. The transaction is an opportunity for M&R to acquire a business active in an area in which M&R does not operate.
13. The transaction was effective from last month and represented new foreign investment in South Africa.
14. The acquisition opens new routes to market for the division and secured a high quality new client base including mining houses
15. This acquisition has provided a platform for National Asphalt to service the market on a much broader base.
16. The acquisition opened new routes to market for its aggregates division
17. B&E has developed an extensive footprint in southern Africa over its 35-year history.
18. Space Construction increases Raubex Construction's regional presence and capacity.
19. Strategically positioned in Gauteng, the fleet and extensive asphalt manufacturing capability provides additional capacity and secures supply to meet the demand.
20. This transaction was viewed as being part of the strategy of expanding existing business models into new geographies.
21. The merger will enable Stefanutti to penetrate and expand in the Gauteng and Cape regions where Stocks is strongly present, and Stocks to penetrate KZN where Stefanutti is strongly present."
22. Enable Stefanutti to expand beyond the South African borders and draw from Stocks' expertise in partnering with Middle Eastern companies.
23. Stefanutti Stocks said the rationale for the transaction was that water infrastructure distribution expansion and rehabilitation was expected to form an integral part of the government's future investment.
24. Acquisition will provide it with the prospects of expanding its service offerings, as well as the opportunity to participate in the pipeline construction market.
25. The acquisition is mutually advantageous, giving Stefanutti & Bressan a further foothold in the mechanical and electrical construction field.

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26. The acquisition will extend the footprint of our roads and earthworks and infrastructure division

There was a total of 21 horizontal acquisition transactions under research question two, and thirteen of these acquisitions were of targets considered to be unrelated to the business of the primary acquirer. Of the 26 motives and reasons listed the theme of gaining access to new markets is strongly evident. It is mentioned in all 26 motives/reasons, be it new geographies, new clients, extend footprints, and expanding into new product/service offerings.

5.5. Results for Research Question 3

Do construction companies adopt vertical acquisitions to gain market power?

The literature on market power came across as disjointed with many opposing views on what the impact of M&As on market power is. Therefore, the aim of research questions 3 and 4 is to explore the motives and reasons for vertical integration acquisitions. Some researchers have found that M&As increase market share, but this has been found to be not applicable to horizontal mergers, however the evidence on vertical mergers is not so strong. The literature appears to suggest vertical mergers are undertaken for the purpose of maintaining market share and to have general control of input and output prices.

The M&A transactions which, under Section 5.2, were classified as vertical acquisitions had the following motives.

Aveng's acquisition of Dynamic Fluid Control, a vertical integration move for the manufacturing and supply of inputs in the upstream and downstream markets. The motive Aveng put forward was "*this transaction is part of the objective to achieve strategic growth in the infrastructure value chain in South Africa, more specifically Aveng has identified activities in the water infrastructure value chain as an area of growth"* (Competition Tribunal South Africa, 2010a).

Basil Read's acquisition of Stone Allied Industries, it was stated **"***to achieve our goal of being a R5 billion plus group, we are monitoring opportunities for expansion, while continuing to aggressively drive organic growth"* (Basil Read, 2007). For the acquisition of Spray Pave, Basil Read cited the large supply contracts Spray Pave currently had

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with SASOL as being particularly attractive, as well as the growth potential of Spray Pave. On the acquisition of Mvela Phanda Construction, Basil Read stated "*this acquisition will strengthen Basil Read's buildings division and enable the enlarged group to aggressively pursue the many building opportunities currently on offer as public-private partnerships (PPP). The capacity and management skills acquired will allow us to undertake these larger, more technically challenging projects"* (Basil Read, 2009). Overall, Basil Read viewed the acquisition of these three companies as a move to enhance its earnings and chime with its strategy of growing by acquisition and organically.

Group Five viewed its acquisition of Quarry Cats "*as enhancing and complementing its expansion and growth strategy in the infrastructure sector and mitigating the risk of future materials shortages with respect to key infrastructure projects undertaken in Gauteng." "The rationale behind the purchase of Quarry Cats was that it is margin enhancing, complements the group's expansion and growth strategy in the infrastructure sector"* (Group Five, 2007). On the acquisition of Sky Sands, Group Five saw this as an opportunity to complement the business of Quarry Cats as part of its expansion and growth strategy in the infrastructure sector.

Murray & Robert cited "*further growth lies ahead with us now having created a specialist company which allows us to engage the mining industry at every level"* (Murray & Roberts, 2005) for its acquisition of The Cementation Company. One of the motives cited by M&R for the acquisition of Oconbrick Manufacturing was to be able to expand the Oconbrick production capability, which was increased by 30% shortly after the transaction. For the Concor acquisition, M&R stated that "*Concor complements the existing business of Murray & Roberts and offers considerable new capacity at a time of significant growth potential in infrastructure investment"* (Murray & Roberts, 2006). For the acquisition of Wade Walker, M&R stated "*the acquisition of Wade Walker will enhance M&R's product and services range and complement its business, allowing it to better serve its customers and compete more effectively against other firms that are already integrated and offer internal electrical and instrumentation.' "Wade Walker serves the domestic and regional industrial and mining sectors and will strengthen the Group's existing capacity in these markets"* (Competition Tribunal South Africa, 2007a)

On Raubex's Roadmac Surfacing acquisition of National Asphalt, the company indicated that the transaction was in line with its stated strategy of growing both organically and acquisitively, as reflected by strong financial performance as a result of the strategic

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acquisition of National Asphalt. The B&E International Holdings acquisition was aimed at increasing the Raubex mining and contracting capabilities, and they stated that "*the combined market reach and client base will unquestionably result in an exciting future for the aggregates division"* (Business Report, 2007b).

The acquisitions of Space and Zamori Construction are classified as horizontal acquisitions and the stated motive for these transaction was to increase capacity in road building. Raubex's commercial and financial director said *"the acquisitions were another capacity-building move for Raubex to reinforce its road and civil infrastructure capabilities".* "*We have been looking to further reinforce our heavy construction presence in South Africa. Both companies have a great reputation in this area"* (Business Report, 2008).

On Roadmac Surfacing's acquisition of Bonn Plant Hire, "*the company had reported that the acquisition would reinforce its capacity in Gauteng, that this was yet another strategic acquisition for Raubex as we gear up to meet the demand created by the recently announced Gauteng road upgrade programme"* (Engineering News, 2008b). On the vertical acquisition of Tosas Holdings, the transaction was viewed as being part of the group's strategy to secure bitumen supply and strengthen its vertically integrated model, and that Tosas would supply valued-added bituminous products to Raubex and the external market.

The acquisition of Shisalanga Construction was viewed as National Asphalt being able to "*build on the initial momentum created by Shisalanga Construction in the road maintenance and rehabilitation sector by promoting hydro cutting technology, a strategy of improving market position, and strengthening the leading position in core markets'"* (Tancott, 2014).

Stefanutti's acquisition of Stocks Limited, although classified as horizontal, the stated motive was that **"***the merger will enable the parties to complement their product offering and be able to compete with companies like Murray & Roberts and WBHO, who offer similar services"* (Competition Tribunal South Africa, 2008b). *The fusion of these two brands has enabled us to forge a foundation which will support future growth for many years to come"* (Stefanutti Stocks, 2009). The acquisition of Cycad Pipelines was viewed as a means to increase the Construction Industry Development Board (CIDB) grading, as the higher the grade the more a company is able to perform large scale civil engineering work.

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For the acquisition of Energotec, Stefanutti stated that "*the transaction will ultimately enable Stefanutti Stocks to offer a more comprehensive service to its clients and is therefore an attractive opportunity for Stefanutti Stocks to bolster its current offering within the sector"* (Competition Tribunal South Africa, 2013). For the acquisition of Civil and Coastal Construction, Stefanutti said **"***the acquisitions realise the group's pre-listing objective of expanding its service offering by diversifying further into complementary, high-growth niche construction sectors"* (Fin24, 2007).

WBHO's acquisition of LET Construction, classified as horizontal, the rationale provided by WBHO was that it wished to gain additional skilled labour in the construction industry and increase its market share in order to be able to compete with Grinaker, Murray & Roberts, Group Five and Basil Read, companies which it regarded as its largest competitors (Competition Tribunal South Africa, 2007b). For the acquisition of Roadspan, WBHO stated that the transaction will allow the merged entity to become more competitive, as Roadspan will benefit from the financial and functional support that WBHO can provide (Competition Tribunal South Africa, 2010b).

5.5.1. Summary of motives

The motives put forward for vertical acquisitions, pertaining to research question three, are listed:

1. This transaction is part of the objective to achieve strategic growth in the infrastructure value chain in South Africa
2. We are monitoring opportunities for expansion, while continuing to aggressively drive organic growth
3. Growth potential
4. This acquisition will strengthen Basil Read's buildings division and enable the enlarged group to aggressively pursue the many building opportunities
5. Enhance its earnings and chime with its strategy of growing by acquisition and organically
6. As enhancing and complementing its expansion and growth strategy in the infrastructure sector
7. Further growth lies ahead with us now having created a specialist company which allows us to engage the mining industry at every level

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8. Concor complements the existing business of Murray & Roberts and offers considerable new capacity at a time of significant growth potential in infrastructure investment.
9. The acquisition of Wade Walker will enhance M&R's product and services range and complement its business, allowing it to better serve its customers and compete more effectively against other firms
10. Will strengthen the Group's existing capacity in these markets.
11. The combined market reach and client base will unquestionably result in an exciting future for the aggregates division
12. The acquisitions were another capacity-building move for Raubex to reinforce its road and civil infrastructure capabilities"
13. We have been looking to further reinforce our heavy construction presence in South Africa
14. The acquisition would reinforce its capacity in Gauteng, that this was yet another strategic acquisition for Raubex
15. Yet another strategic acquisition for Raubex as we gear up to meet the demand created by the recently announced Gauteng road upgrade programme.
16. Improving market position, and strengthening the leading position in core markets'
17. The fusion of these two brands has enabled us to forge a foundation which will support future growth for many years to come
18. An attractive opportunity for Stefanutti Stocks to bolster its current offering within the sector.
19. Wished to gain additional skilled labour in the construction industry and increase its market share in order to be able to compete
20. The transaction will allow the merged entity to become more competitive

From this list of twenty motives and reasons for vertical acquisitions, several themes emerge. The strongest theme is that of expanding/strengthening capacity, mentioned ten times and driving growth, mentioned nine times. Other themes which emerged are market reach/market share mentioned three times and being more competitive, mentioned twice.

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5.6. Results for Research Question 4

Do construction companies adopt vertical acquisitions to improve synergies and efficiencies along their value chains?

As stated in the preceding Section 5.5, the literature appears to suggest vertical mergers are undertaken for the purpose of maintaining market share or to have general control of input and output prices through improved synergies and efficiencies.

The M&A transactions which, under Section 5.2, were classified as vertical acquisitions had the following motives.

Basil Read's acquisition of Stone Allied Industries and Spray Pave was viewed as a strategic materials supply opportunity, as well as access to supply materials to Basil Read projects and the Gautrain project they were busy with at the time. Whilst the acquisition of Blasting & Excavating was viewed as being *"*extremely complementary*"* to Basil Read's mining division. The acquisition of TWP Holdings was viewed as being complementary to both businesses, with the enlarged group "*uniquely equipped to offer a full service to the world's construction environment and mining sectors"* (Basil Read, 2009).

The rationale for the acquisition of Sky Sands by Group Five *was "the scarcity of substantial reserves of quality mortar, plaster and filler sand sources within economic transport distances from the main Gauteng markets. Although market conditions deteriorated somewhat in the last six months due to the decline in property development and general building activities, efficiencies and market share were increased. Margin pressures have been controlled through these efficiency gains"* (Group Five, 2008)

Post the acquisition of Wade Walker by Murray & Roberts, Wade Walker was incorporated into M&Rs MEI *(Mechanical, Electrical and Instrumentation)* division to realise operational efficiencies.

Roadmac Surfacing's acquisition of National Asphalt was described as a good fit with the division's activities, whilst Raubex Group's acquisition of B&E International Holdings was made as it **"***offers synergies with all divisions",* and that the deal would also *"ensure that Raubex was well positioned to address the expected increase in materials demand ahead of major infrastructure projects in South Africa"* (Spadavecchia, 2007a)

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For the Raubex acquisition of Tosas Holdings, the motives cited were; *"with the persistent bitumen supply shortages in South Africa, this acquisition also secures Raubex's long-term bitumen supply and adds storage facilities which are critical to ensure efficiencies around the necessary imports of bitumen. Tosas will service about 50% of Raubex's own bitumen needs, "Raubex has acquired bitumen producer Tosas Holdings from Sasol Oil for R120-million in cash as part of its long-term strategy to become more vertically integrated and to become a supplier along the entire road construction value chain"* (Greve, 2013).

Post the acquisition by Stefanutti's of Environmental, Civil & Mining Projects (ECMP), ECMP was fully integrated into the group's mining services operations to realise synergies and efficiencies. Whilst the acquisition of Civil and Coastal was made to bolster Stefanutti's civil construction skills base.

For WBHO, the motive for the acquisition of Matkovich & Hayes was cited as *"this acquisition should create synergies for the group and we will be able to offer developers a "one stop" service. We are now in a position to supply a "one stop shop" solution to golf estate developers by offering design, construction, irrigation, maintenance and management of golf courses"* (WBHO, 2006).

5.6.1. Summary of motives

The motives put forward for vertical acquisitions, pertaining to research question four, are listed:

1. Extremely complementary
2. Uniquely equipped to offer a full service to the world's construction environment and mining sectors.
3. Efficiencies and market share were increased
4. Margin pressures have been controlled through these efficiency gains.
5. Offers synergies with all divisions,
6. Critical to ensure efficiencies around the necessary imports of bitumen
7. Long-term strategy to become more vertically integrated and to become a supplier along the entire road construction value chain.
8. This acquisition should create synergies for the group and we will be able to offer developers a "one stop" service.

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From this list of eight motives and reasons for vertical acquisitions, the theme of efficiency and synergy is mentioned on five occasions. Another theme which appears is that of being able to offer or supply services along the entire value chain.

5.7. Summary

This chapter presented the findings of the analysis of the data collected according to the four research questions formulated in Chapter 3. The first section provided a description of the sample, introducing the JSE listed construction companies with a brief company background and a list of M&A transactions for the period under consideration. A summary of motives for each of the four research questions was also provided, highlighting the dominant themes. The following section is a discussion of the results, for each of the four research questions.

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6. DISCUSSION OF RESULTS

6.1. Introduction

The aim of this research is to investigate and gain an understanding of the motives and rationale for mergers and acquisitions in the South African construction industry. In this chapter the research findings are discussed in detail in terms of the four research questions within the context of the literature review presented in Chapter 2. The insights gained from the results are presented and are compared to the concepts and ideas presented in the literature in order to address the research questions presented in Chapter 3.

The literature review presented in Chapter two revealed a wide variety of reasons and motives for M&A transactions, and what was clear is that the motives can be summed up and categorised into either gains for shareholders or gains for managers. For the research, the focus was limited to shareholder gains related motives mainly due to the type of data available as well as the shareholder value creation mandate for publicly listed companies. Within the shareholder gains category, further emphasis was placed on the efficiency and synergy gains, entry barriers as well as market power motives for the purpose of this research. The following sections is a discussion of the research findings in the context of shareholder gains motives.

6.2. Discussion of Results for Research Question 1

Do construction companies adopt horizontal acquisitions to enhance efficiencies and synergies?

The aim of this research question was to explore and identify the motives and reasons behind horizontal acquisitions as the research literature suggested that efficiency gains motives were an incentive for horizontal acquisitions (Focarelli & Panetta, 2003), through the achievement of short-run economies of scale, and in the long run, from coordination of the company’s investments in capital (Motis, 2007).

From the motives and reasons identified for research question 1 the theme of synergy and efficiencies came out quite strongly in the findings, which indicates that construction companies are undertaking horizontal acquisition of companies competing in the same industry to achieve synergies and efficiencies, for productivity and profits. Evidence was

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found in Basil Read's motive into the acquisition of Roadcrete which was that the realised synergies will enhance competitiveness and profitability of their roads division, and Murray & Roberts believed they could return Alert Steel to profitability through their expertise and synergies.

Haleblian et al. (2009) categorised efficiency gains under value creation, shown in Table 2-3, as it is a means of reducing production costs to realise value in the form of profits. Motis (2007) expanded further on efficiency and synergy gains, see Table 2-4, stating that efficiency gains are realised through economies of scale, economies of scope as well as economies of vertical integration. It is sensible that merging firms would achieve production efficiencies through economies of scale and scope, as scale would be achieved through higher production and lower marginal costs, while scope can be reached if the average cost of producing multiple products separately falls when the products are produced jointly. The achievement of efficiencies through vertical integration supports the findings of research question 4. On synergy gains, Motis (2007), states that these are achieved through the diffusion of know-how, whereby merging firms with different but complementary technological capabilities will achieve technological progress.

Synergy gains can also be realised through acquisition of companies with a high R&D capability, however the probability that construction companies acquire for R&D capabilities is fairly low as this is an industry notorious for outdated construction methods and an unwillingness to change. R&D in construction is mainly the focus of product suppliers as well as plant and equipment manufacturers. Motis (2007) in essence, is of the view that efficiencies are gained through improvements in production, and synergies are gained through merging of technological capabilities or resources.

An additional theme which emerged strongly under research question 1 was integration and complementarity of resources across the two companies. This ties in quite well with Farrell and Shapiro (2000) who posited that synergy efficiencies are those that require intimate integration of the merging party's unique, hard-to-trade assets that allow production output or cost configurations that would not be otherwise feasible. By way of an example, in Murray & Roberts' acquisitions of the Cementation Company and Concor they stated that a high level of technical interaction and complementarity, as well as efficiencies by integrating Concor's operational divisions with Murray & Roberts. Li (2013) showed that acquiring companies increase the productivity of target companies through more efficient use of investments and labour and that a net improvement in the

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target company's productivity was a source of efficiency gains as the acquiring firm produced the same amount of output using less input, and evidence of that was seen with WBHO's intention of increasing or facilitating Insitu Pipeline's participation in multifaceted contracts.

There was a total of nine transactions categorised under research question 1, and what is interesting to note is that five of the acquisitions were of targets involved in activities or services not similar to the acquiring company, different but complementary resources. According to Harrison, Hitt, Hoskisson, & Ireland (2001) acquisitions of firms with similar resources tended to produce short-term value as economies of scale are easier to achieve, but they found that significant long term value creating synergies can be achieved with different but complementary resources.

This view of achieving synergies through acquisition of different but complementary resources is supported by Ireland et al (2013), and Haleblian et al. (2009). see Table 2-2 and Table 2-3 respectively The latter categorise this resource view under 'learning and developing new capabilities', whereby such an acquisition helps the acquiring firm to gain access to new knowledge and remain agile, and the former sees this as 'resource deployment' of assets and competencies to generate economies of scope for the creation of value.

Moatti, Ren, Anand, and Dussauge (2015) argued that M&A transactions only increase bargaining power in the short term, and in the long term operating efficiencies actually decrease. It is perhaps a coincidence that Murray & Roberts, which carried out acquisitions of businesses that were similar to their operations later disposed of these companies due to poor long-run performance of the merged entity. There is however also been a disposal of previously acquired companies by Aveng, Basil Read and Group Five, therefore it cannot be said that these disposals are a result lost efficiencies and synergies when there are also external economic factors which have led to the decline of the industry and possibly a cause of the asset disposals.

There is a general consensus and support in the literature that construction companies adopt horizontal mergers and acquisitions to facilitate the attainment of production efficiencies and synergies to create value for shareholders. This is also supported by the resource-based view theory of the firm, whereby there was evidence in the findings that these M&A transactions are driven by the desire to acquire resources that are different, but complementary to the acquiring company.

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6.3. Discussion of Results for Research Question 2

Do construction companies adopt unrelated horizontal acquisitions to gain immediate access to new markets?

The aim of this research question was to explore and identify the motives and reasons behind unrelated horizontal acquisitions with respect to access to entry into new markets. What has generally being found is that the higher the barriers to entry, the higher the probability that a company will acquire an existing firm in the market, and this provides the acquiring company with immediate access to markets (Ireland et al., 2013). When facing high entry barriers to markets, a company will find acquiring an established company to be more effective than entering the market as a competitor and offering products and services that are unfamiliar to current customers.

From the lens of the resource-based view theory of the firm, the theory predicts that a company is likely to use internal development to enter markets whose resource requirements are similar to the company's existing set of resources and capabilities, and the company will employ acquisitions to enter markets whose requirements are different and far from its current resource base.

From the research findings the theme of gaining access to markets was strongly evident, appearing in all of the stated motives. Acquisitions for entry into markets can be further divided into three sub-categories, (1) those seeking entry into new markets/new product offerings, (2) those seeking to expand or strengthen their regional presence and (3) those speculating on future market activity or future investment by government. The first two sub-categories find support in the literature from Ireland et al. (2013), Yip (1982), Speckbacher, Neumann, and Hoffmann (2015). The third sub-category may be considered under the 'Environmental Factors' category by Haleblian et al. (2009), where their research showed that highly diversified companies were more likely to take on acquisitions in decreasing environmental uncertainty. The findings of this research indicate the opposite to also hold, that companies will also pursue acquisitions based on speculation on future market activity or government expenditure.

There was a total of 21 horizontal acquisition transactions under research question two, and thirteen of the acquisitions were of target companies considered to be unrelated to the business of the primary acquirer, which to a large extent supports the theory that

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companies will employ acquisitions to enter new markets whose resource requirements are different and far from its current resource base.

(Yip, 1982) found that high entry barriers are more likely to be associated with acquisitions, and that business or resources relatedness will most likely be associated with direct entry or internal development, this view was supported by Speckbacher, Neumann, and Hoffmann (2015) who found that resource relatedness on a company's decision between internal development and collaborative arrangement, found that relatedness between a company's existing business and the needs of the new market is a key determinant of the choice between internal development and collaboration with an external party.

These views were supported by the findings as the construction industry is considered to have very high barriers to entry due in part to the significant capital investment and highly specialised skills required to enter markets, it is therefore not surprising that the research findings revealed that these large construction companies opt for acquisitions, of related and unrelated businesses, as a means to enter new markets as well as a means to expand or strengthen a company's regional presence. These findings are supported by the underlying resource-based theory of the firm which predicts that companies will likely employ acquisitions to enter markets whose requirements are different from its current resource base, and that a company will find acquiring an established company resources to be more effective than entering the market as a competitor.

Interestingly, Motis (2007) argued that the desire for multimarket contact is actually a means to enhance or strengthen market power. The hypothesis was that a merger between diversified companies can create market power in the individual market in which the companies compete, that the market power of one company can be increased through its contacts in other markets. To illustrate the point, Motis (2007) implores the reader to think about company A and B competing in market 1, and firms C and D competing in market 2. If firms A and C merge, and B and D merge, there will now be two firms AC and BD that compete in both markets 1 and 2 and that have a multimarket contact. The multimarket contact model shows that the merger will facilitate the sustainability or enhancement of market power in both markets 1 and 2, which would have not been possible without the multimarket contact facilitated by the merger.

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It is also worth noting that a number of transactions categorised under research question 2 were classified as vertical integration. They were Aveng's acquisition of DFC, Murray & Roberts' acquisition of Oconbrick and Raubex acquisitions of National Asphalt and B&E International. What these demonstrate is that the desire to enter new markets through acquisitions is not limited to horizontal acquisitions, but can also be achieved through vertical integration by way of acquiring input and output suppliers who not only serve the parent company but the market in general.

There is therefore consensus and support for the findings in the literature that construction companies adopt horizontal mergers and acquisitions to facilitate entry into new markets or strengthen their positions in existing markets. This is also supported by the resource-based view theory of the firm, whereby there was evidence in the findings that companies will employ acquisitions to enter markets whose requirements are different from its current resource base.

6.4. Discussion of Results for Research Question 3

Do construction companies adopt vertical acquisitions to gain market power?

The aim of research questions 3 and 4 was to explore the motives and reasons for vertical integration acquisitions from the perspective of market power. The literature on market power was found to be disjointed with many opposing views on what the impact of M&As on market power is. Ireland et al. (2013) states that the primary reason for acquisitions is to achieve greater market power, seeTable 2-2, however they are of the view that increasing market power can be achieved through horizontal and vertical acquisitions. What was found in the literature was that M&As increase market share, but this was found to be not applicable to horizontal mergers.

In Chapter 2 market power was said to exist when a company is able to sell its goods or service above competitive levels (Ireland et al., 2013), or a company's ability set its price above marginal cost (Baye & Prince, 2013; Motta, 2004). Market power is also related to the size of the company, its resources, market share and competitive advantage in the market. The literature appeared to suggest vertical mergers are undertaken for the purpose of maintaining market share and to have general control of input and output prices. Based on this, as well as the results of a KPMG survey which found that managers and board of directors consider the gaining of market share as the single most

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important reason for mergers and acquisitions (Ghosh, 2004), one would have expected the motives and reasons provided to be littered with references to market share.

However in the research findings there was only one mention of the desire to increase market share and two other mentions alluding to an improvement in market position and market reach. It is thought that the reason why companies do not boldly pronounce on their desire to gain market share or the desire to exercise better control on prices is to avoid scrutiny by the Competition Commission and Competition Tribunal who do not take too kindly to behaviour that may appear to be uncompetitive.

From the lens of the resource-based view theory, Harrison, Hitt, Hoskisson, and Ireland (2001) posit that complementary resources allow companies to combine acquired resources with their own set of resources, to create a resource bundle that provides unique and difficult-to-imitate value.

From the research findings there was a total of twenty motives and reasons categorised under research question 3, and from this list of motives and reasons for vertical acquisitions, four themes emerged. The strongest theme was that of expanding/strengthening capacity, followed by the pursuit of growth, and to a lesser extent the attainment of market reach/market share merged as the third theme and lastly, the desire to be more competitive in the market. These four themes are in line with the resource-based view theory because these construction companies view the expansion of capacity, pursuit of growth and market share as well as enhanced competitiveness through an acquisitive process of combining resources with another company.

This view of combination of resources as a means to grow and attain competitiveness is in line with Das and Teng (2000) argument that rationale for alliances is the value creation potential of firm resources that are pooled together (Das & Teng, 2000). What was also interesting to note is that a number of these companies acknowledge the pursuit of growth and expansion through acquisitions in parallel with aggressive organic growth strategies.

In their consideration of market power, Haleblian et al. (2009) advance the idea from literature that market power is attained by having fewer companies in an industry which in turn enables firm-level pricing power. Although this idea is not supported in the findings, it offers a plausible perspective on the motives for vertical acquisitions. Although companies will not openly state this as a motive, evidence can be seen by the

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number of acquisitions of input suppliers, for the transactions under research question 3 there was a total of five acquisitions of input suppliers. The South African construction industry is characterised by a few industry giants and a limited number of input suppliers in the forms of materials quarries, steel suppliers and equipment manufacturers. The acquisition of these small industry players can be viewed as a means to consolidate the industry by the large construction companies, which would enable them to have pricing power in the long run.

Motis (2007) classifies vertical integration as a means to achieve efficiency gains, see Table 2-4, realised when the average cost of producing two products separately falls when the products are produced jointly. By his classification, enhancing or strengthening market power is achieved through (1) horizontal mergers, whereby a merged company acts independently of rivals and raises prices after the merger; (2) coordinated effects or collusion whereby a merger changes the mode of competition to a more tacit or explicit collusive behaviour that facilitates price increase; (3) raising of entry barriers whereby the post-merger higher entry barriers may facilitate the enhancement of market power, the creation of entry barriers can be achieved by merging two potentially competing technologies; (4) spreading of portfolio whereby customers will prefer to be supplied with different inputs from the same company rather than different companies; and lastly (4) multimarket contact where a merger between diversified sellers can create market power in the individual market in which the companies compete.

The findings under research question 3 do not support this view, partly because the scope of the research and the type of data available for the research does not allow for the analysis of post-merger pricing behaviours and collusive effects, and the fact that the Competition Commission and The Competition Tribunal prohibit mergers where there's evidence of price control and possible collusive behaviour. The two competition authorities also have mechanisms in place for companies in the industry to lay complaints or appeal merger decisions.

Although the motives as presented in Table 2-2, Table 2-3, and Table 2-4 do not agree on the source of market power for companies, there is general support for the findings in the literature that construction companies adopt vertical mergers and acquisitions to enhance or gain market power. The four themes that emerged in the findings are in line with the resource-based view theory because these construction companies view the expansion of capacity, pursuit of growth and market share as well as enhanced

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competitiveness through an acquisitive process of combining resources with another company.

6.5. Discussion of Results for Research Question 4

Do construction companies adopt vertical acquisitions to improve synergies and efficiencies along their value chains?

As stated in the preceding section, the literature appears to suggest vertical mergers are undertaken for the purpose of maintaining market share or to have general control of input and output prices through improved synergies and efficiencies, and the aim of this research question was to explore the motives for vertical acquisitions in the context of synergies and efficiencies.

From the research findings there were eight motives related to efficiency gains in vertical acquisitions, categorised under research question 4. The theme of efficiency and synergy came out quite strongly in the results, which is in contrast with the literature review where Stuckey and White (1993) argued that most companies are vertically integrated to creates very high barriers to entry for non-integrated players to enter, thus maintaining market power and for price discrimination as forward integration into selected customer segments can allow a company to benefit from price discrimination (Stuckey & White, 1993). This view was supported by Chen, Xu, and Zou (2017) who found that vertical mergers always lead to a decrease in the final product price leaving the consumers better off. However, as previously discussed companies will not boldly pronounce on possible post-merger price movements which would alarm competition authorities and for confidentially reasons.

The view of vertical acquisitions as means to achieve synergies and efficiencies was supported by Motis (2007), categorising efficiency gains as being achieved through economies of vertical integration. Whereby the efficiencies are gained when the sum of the cost of separately owned stages of production falls when owned by a single company. This view was also partly supported by Díez-Vial (2007), who came to the conclusion that companies do not vertically integrate to extend market power, but instead they integrate to influence industry structure by preserving their market share, invest in specific assets and resources, to be able to adapt to changes in transactions and finally, to exploit their capabilities internally (Díez-Vial, 2007). Haleblian et al. (2009) on the

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other hand view efficiencies as part of value creation through the reduction of production costs.

Another theme which emerged from the results of research question 4 is that of companies being able to offer or supply services along the entire value chain, and this theme came through in the literature where it was apparent that companies will employ the strategy of vertical acquisitions in order to create specific investment between stages of the value chain, to be able to better exploit their internal pool of knowledge and resources, and to guarantee quality of inputs and services. Motis (2007) views the ability of being able to offer products and services along the entire value chain as a cost saving mechanism. The cost savings are realised through rationalization or optimal reallocation of production across the various lines of production of the merging firms, as well as through the creation of internal capital markets by efficient allocation of capital among divisions, and saving higher costs of operating separately owned divisions. An example of this was seen in Group Five's acquisition of Sky Sands, where Group Five stated that "*although market conditions deteriorated somewhat in the last six months due to the decline in property development and general building activities, efficiencies and market share were increased. Margin pressures have been controlled through these efficiency gains.*"

There is therefore consensus and support for the findings that efficiencies and synergies can be realized through vertical mergers and acquisitions, and that this occurs mainly through better control and spreading of production costs along the entire value chain. Similar to the market power motives, the scope of the research and type of data available for the research does not allow for the analysis and interrogation of post-merger cost savings realised in vertical integration transactions.

6.6. Summary

To summarise the key discussions for research questions 1, the theme of synergy and efficiencies came out quite strongly in the findings together with the theme of integration and complementarity of resources. These key findings are well supported in the literature and have a basis in the resource-based theory of the firm.

For research question 2, the theme of gaining access to markets was strongly evident, appearing in all of the stated motives. This theme was further sub-divided into three categories, those seeking entry into new markets/new product offerings, those seeking

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to expand or strengthen their regional presence and those speculating on future market activity or future investment by government. The findings are well supported by the underlying resource-based theory of the firm which predicts that companies will likely employ acquisitions to enter markets whose requirements are different from its current resource base.

For research question 3, the strongest theme that emerged was the expansion and strengthening capacity, followed by the pursuit of growth, and to a lesser extent the attainment of market reach/market share merged as the third theme and lastly, the desire to be more competitive in the market. These four themes are in line with the resource-based view theory because these construction companies view the expansion of capacity, pursuit of growth and market share as well as enhanced competitiveness through an acquisitive process of combining resources with another company.

For research question 4, the theme of efficiency and synergy came out quite strongly in the results, which was found to be contrary to the literature review. Another theme which emerged from the results of research question 4 is that of companies being able to offer or supply services along the entire value chain, which was found to be in line with the literature.

The following chapter provides a summary of all the findings, and presents the possible implications for management and suggestions for future research.

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7. CONCLUSION

7.1. Introduction

Merger and acquisition (M&A) strategies have been very popular for many years as a means of growth and strategic competitiveness. The central question this research aims to answer is, what are the motives for mergers and acquisitions? The literature proposes a number of reasons and rationale for mergers and acquisitions. The consensus is that some of the reasons rely on the theory of industrial organisation and refer to enhancement of market power and efficiency gains, while others rely on managerial self-interest, regulations and firm characteristics. The aim of the research, presented in Chapter 1, was to seek to identify, analyse and understand the motivation for mergers and acquisitions in the South African construction industry, for a sample of construction companies listed on the Johannesburg Stock Exchange. The South African construction industry was selected for the study due to its status as a major job creator, accounting for 6.2% of the South African labour force. The industry is currently under pressure to transform, and this will have a likely impact on company's growth strategies.

Chapter 2 presented an extensive review of academic literature on motives for mergers and acquisitions, which included a definition of mergers and acquisitions and a brief history of occurrence of merger activity globally. The motives and reasons as found in the literature were presented, and these were then narrowed down to shareholder gains related motives. Focusing on the efficiency and synergy gains, entry access into new markets as well as the attainment of market power related motives. The literature review resulted in the formulation of four research questions presented in Chapter 3.

Chapter 4 presented the research methodology and design, defining the study population, the sampling method and size of the sample. The sample comprised of seven JSE listed construction companies, covering mergers and acquisitions between the years 2004 and 2017. The collection of the secondary data and the analysis method therefore was described. The data analysis and presentation of results was presented in Chapter 5, organised according to the four research question and the discussion of findings was presented in the preceding Chapter 6. This chapter 7 provides a summary of findings for the four research questions, and presents the possible implications for management and suggestions for future research.

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7.2. Principal findings

Research Question 1: Do construction companies adopt horizontal acquisitions to enhance efficiencies and synergies?

The theme of synergy and efficiencies came out quite strongly in the findings, it can therefore be concluded that construction companies are undertaking horizontal acquisitions of companies competing in the same industry to achieve synergies and efficiencies, for productivity and profits. In addition, the findings also revealed that integration and complementarity of resources is also a motivating factor for horizontal acquisitions (Harrison et al., 2001), Ireland et al (2013), and Haleblian et al. (2009). The findings for research question 1 were found to be well supported in the resource-based view theory of the firm and literature, where it is postulated that synergy efficiencies are those that require intimate integration of the merging party's unique, hard-to-trade assets that allow production output or cost configurations that would not be otherwise feasible (Farrell & Shapiro, 2000). Ireland et al (2013) categorise this resource view under 'learning and developing new capabilities', whereby such an acquisition helps the acquiring firm to gain access to new knowledge and remain agile, and Haleblian et al. (2009) see this as 'resource deployment' of assets and competencies to generate economies of scope for the creation of value.

The conclusion is that there is general consensus and support in the literature that construction companies adopt horizontal mergers and acquisitions to facilitate the attainment of production efficiencies and synergies to create value for shareholders. This was also supported by the resource-based view theory of the firm, where there was evidence in the findings that M&A transactions are driven by the desire to acquire resources that are different, but complementary to the acquiring company.

Research Question 2: Do construction companies adopt unrelated horizontal acquisitions to gain immediate access to new markets?

From the research findings there was strong evidence of companies undertaking horizontal acquisitions for access to new markets. It was also found that the access to markets can be further divided into three sub-categories, (1) those seeking entry into new markets/new product offerings, (2) those seeking to expand or strengthen their regional presence and (3) those speculating on future market activity or future investment by government. The findings are well supported by the underlying resource-

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based theory of the firm which predicts that companies will likely employ acquisitions to enter markets whose requirements are different from its current resource base (Yip, 1982). An additional finding was that the desire to enter new markets through acquisitions is not limited to horizontal acquisitions, but can also be achieved through vertical integration by way of acquisition of input and output suppliers.

Although Motis (2007) argued that the desire for multimarket contact is actually a means to enhance or strengthen market power. There was consensus and support for the findings in the literature that construction companies adopt horizontal mergers and acquisitions to facilitate entry into new markets or strengthen their positions in existing markets. This was also supported by the resource-based view theory of the firm, whereby there was evidence in the findings that companies will employ acquisitions to enter markets whose requirements are different from its current resource base.

Research Question 3: Do construction companies adopt vertical acquisitions to gain market power?

The research findings were that construction companies adopt vertical acquisitions to expand or strengthen capacity, followed by the pursuit of growth, and to a lesser extent the attainment of market reach/market share and the desire to be more competitive in the market. These four findings are in line with the resource-based view theory because these construction companies view the expansion of capacity, pursuit of growth and market share as well as enhanced competitiveness through an acquisitive process of combining resources with another company.

Haleblian et al. (2009) advanced the idea from literature that market power is attained by having fewer companies in an industry which in turn enables firm-level pricing power, and Motis (2007) classifies vertical integration as a means to achieve efficiency gains realised when the average cost of producing two products separately falls when the products are produced jointly. These views were not supported in the findings, however they offer a plausible perspective on the motives for vertical acquisitions.

The motives and the literature presented in Chapter 2 do not agree on the source of market power for companies. There is general support for the findings in the literature that construction companies adopt vertical mergers and acquisitions to enhance or gain market power. The four themes that emerged in the findings are in line with the resource-based view theory because these construction companies view the expansion of

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capacity, pursuit of growth and market share as well as enhanced competitiveness through an acquisitive process of combining resources with another company.

Research Question 4: Do construction companies adopt vertical acquisitions to improve synergies and efficiencies along their value chains?

The research findings revealed that construction companies adopt vertical acquisitions for the purpose of improving synergies and efficiencies, as well as being able to offer or supply services along the entire value chain. The findings on efficiency and synergy gains were not strongly supported in the literature and theory, wherein the literature is it argued that most companies vertically integrate to create very high barriers to entry for non-integrated players to enter, thus maintaining market power and for price discrimination (Stuckey & White, 1993). The only support in the literature for the view that vertical acquisitions are a means to achieve synergies and efficiencies was from Motis (2007), categorising efficiency gains as being achieved through economies of vertical integration.

The finding on the ability to supply services along the value chain does find favour in the literature, where it is argued that companies will employ the strategy of vertical acquisitions in order to create specific investment between stages of the value chain. Motis (2007) views the ability of being able to offer products and services along the entire value chain as a cost saving mechanism, with the savings realised through rationalization or optimal reallocation of production across the various lines of production of the merging firms

The consensus in the literature was that efficiencies and synergies can be realized through vertical mergers and acquisitions, and that this occurs mainly through better control and spreading of production costs along the entire value chain. It can therefore be concluded that construction companies adopt vertical acquisitions for the purpose of improving synergies and efficiencies through cost savings, as well as the ability to offer or supply services along the entire value chain.

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7.3. Implications for management

The findings and the literature review of this research have practical implications for management, particularly those concerned with business strategy and growth. The research findings have shown that companies carry out acquisitions, both horizontal and vertical, for a number of strategic reasons, which include the desire to achieve synergies and efficiencies in their operations, entry into new markets, expanding presence in existing markets and speculating on future economic activity, as well as enhancement of market power.

For managers concerned with long term business growth, acquisitions do facilitate business growth however the literature suggests that in the long term, it is organic growth that has long term growth benefits. The literature also suggests that significant long term value creating synergies can be achieved through acquisitions of companies with different but complementary resources (J. Harrison et al., 2001). Acquisitions also offer better and quicker business returns compared to direct entry into new markets, however it is important that there is complementarity of resources in order to take advantage of synergies and efficiencies that can be achieved by merging the two businesses.

As stated in Section 1.3.1 of this report, the South African construction industry has been under pressure to transform and empower black owned companies which has led to SOEs such as SANRAL introducing new procurement policies aimed at transforming industries, and this will have a significant impact on business growth strategies going forward. In terms of mergers and acquisitions, companies will not only have to be concerned with the resources and capabilities of target firms, but also their internal transformation policies and the implementation thereof, black ownership and the participation of black people in key management positions.

7.4. Limitations of the research

As indicated in Section 4.9, qualitative research is subjective and at risk of being affected by a number of biases (Saunders & Lewis, 2012). The identified research limitations are as follows”

- The major limitation is that the Competition Tribunal provides a summary of the rationale provided by the merging firms, the full comprehensive reasons are considered confidential and permission would have to be granted by the merging

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firms for access to the full record. Therefore the provided motives might not provide information as detailed as one would get from an in-depth interview.

- The level of detail into the motives for acquisitions varies across the records of decisions and the various company annual reports, again, the depth of information would have made the research findings much more richer and provide insightful content for analysis.
- The sample was limited to only one industry, therefore it is not possible to generalise the findings across all industries.

7.5. Future Research

This research study was exploratory in nature, and has unearthed a number of potential future research areas.

This study relied on secondary data obtained from freely available sources, and the findings have provided an overview of the motives for mergers and acquisitions. Further explanatory research, into this topic may unearth much deeper insights and richer findings. This could be achieved through in depth interviews on merger motives with executives involved in mergers and acquisitions strategies, followed by a qualitative analysis of data on market shares, operational and financial performance of companies pre and post mergers in order to be able to explain the relationship between merger motives and performance.

One of the key take-outs from this research and particularly the literature, is the notion that long term value creating synergies and efficiencies are achieved when the two merging parties have different but complementary resources. A research study could explore this further and compare long tern performance of companies where there was a merger of similar resources versus a company where there was a merger of different resources. What also came out of this research is that construction companies use mergers and acquisitions as a means of access to new markets, and this is partly due to high industry related entry barriers. A research study to explore the relationship between barriers to entry and market entry mode, that is, direct entry or acquisitive entry. This study would offer invaluable insights for managers concerned with growth strategy.

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APPENDIX 1

Ethical Clearance Letter

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APPENDIX 2

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